

Tel-Aviv, November 19, 2009

**CLAL INDUSTRIES AND INVESTMENTS LTD.**

**EXECUTIVE SUMMARY**

**AS OF SEPTEMBER 30, 2009**

**1. COMPANY DESCRIPTION**

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

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

The Group consists of investees that operate mainly in the fields of traditional industries, commerce and technologies. The Company is engaged, directly and through its investees, in the establishment, acquisition, development and upgrading of its portfolio companies. The Company strives to be involved in the management and formulation of the strategy in its investee companies, primarily when the Company possesses significant holdings in these companies. The Company strives to enhance and maximize the value of its existing investments, with a view to realizing those investments at the appropriate time. The Company has access to a variety of business opportunities, being constantly alert for investments with a suitable potential return, in those sectors where it is experienced and knowledgeable.

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

The Company's principal targets are:

- Improve business performance in order to achieve maximum return on capital in the long run, with regular economic evaluations of business alternatives and advantageous opportunities.
- Continue establishing the Company as a holding company which coordinates holdings in the following industries: basic manufacturing, high technology and biotechnology, logistics, communication services, energy, consumer products and infrastructures.

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

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

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

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

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

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

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

The global financial crisis and the slowdown in the real financial activity which developed in 2008 led, among other things, to severe plunges of the global capital markets, significant declines and fluctuations in the securities prices in the stock exchanges in Israel and around the world, including significant declines and fluctuations in the prices of certain securities of the Company's investees, deterioration of the credit crisis, reduction in the wealth held by the public, weakened demands and to a significant slowdown and uncertainties in the economic activity. As a result, several economies around the world, including the U.S. and many European countries, went into a recession expressed, among other things, by a wave of minimized and discontinued activities and widespread downsizing in the various sectors, including real estate, manufacturing, services and hi-tech.

These developments have also an effect on the Israeli market and, among other things, indications of recession were identified and there were significant fluctuations in the exchange rates of the main foreign currencies in relation to the NIS, continuing and important lowering of the Bank of Israel's interest and increase in the inflation rates in the domestic market.

Nonetheless, in recent months, a certain recovery in the capital markets around the world and in Israel is apparent; the prices of traded securities went up significantly, the bond market started to pick up and fund raising through the capital market by the business sector renewed.

As of the date of this report, the scope of the direct and indirect economic implications of the global and local economic crisis and its duration cannot be estimated.

The developments in the markets, as above, may have material and continuing effects on the business results of the Company and its investees, their liquidity, value of assets, ability to realize assets, the state of their business, their financial benchmarks, credit rating, ability to distribute dividends and their ability to raise financing for operating activities and long-term activities as well as financing terms.

In May 2009, the Commissioner of the Capital Market, Insurance and Saving at the Ministry of Finance ("the Commissioner") appointed a committee that will determine measures that shall be taken by institutional bodies that invest in loans by purchase of non-Government debentures ("the Committee"). In September 2009, the committee published an interim report for public comments. That interim report comprises recommendations regarding regulatory intervention of the Commissioner in establishing internal procedures in the institutional body before purchasing the debentures, contractual benchmarks which institutional bodies will be required to consider before purchasing the debentures in the primary market and recommendations regarding information that an institutional body is obligated to examine and monitor before investing in debentures and on an ongoing basis.

In September 2009, the Commissioner published a draft circular regarding the adoption of the recommendations contained in the interim report of the committee with respect to the investment in non-Government debentures by institutional bodies.

As of the date when this report is published, there is no certainty what are the final recommendations of the committee and which recommendations will be adopted. If the committee's recommendations are adopted, it may have far implications on the possibility of raising capital from institutional bodies through debentures.

On July 29, 2009, Standard & Poor's Maalot Ltd. ("Maalot") published an update to the rating of the Company's debentures from AA to A+ with stable outlook.

For details as to the announcement made by Maalot regarding the update of the rating of the Company's debentures, see 12b below. As to the update of the rating of debentures of principal investees, see 12d below. As for the quoted market value of investees whose shares are listed, see Note 3b to the Company's financial statements as of September 30, 2009.

**The Group's major segments of operations are as follows<sup>1</sup>**

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

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

**Hadera Paper Ltd.** ("Hadera Paper") (59% owned). Hadera Paper is mainly active in manufacturing and marketing packaging paper and cardboards, collecting and recycling paper, manufacturing and marketing printing and writing paper, home paper products, disposable diapers and products for house and kitchen cleaning.

**Golf & Co. Group Ltd.** ("Golf") (70% owned). Golf mainly sells and markets textile and home design, fashion and clothing.

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

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

**Clal Biotechnology Industries Ltd.** ("CBI"), (64% owned<sup>2</sup>). CBI operates in the biotechnology sector by investing in life science companies and ventures mostly in research and clinical trial stages. CBI's holdings include, among other things, Mediwound Ltd. (56% owned), D-Pharm Ltd. ("D-Pharm") (47% owned), Curetech Ltd. (42% owned, also through Clal Venture Capital Fund, 23% owned), Andromeda Biotech Ltd. (90% owned) and Poliheal Ltd. (35% owned).

**Netvision Ltd.** ("Netvision") (24% owned<sup>3</sup>). Netvision is a leading supplier of communication services in Israel and is mainly engaged in providing internet connectivity services, international telephony services and managed services (equipment and communication network endpoint services and domestic telephony services).

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<sup>1</sup> The ownership interests in the companies are as of September 30, 2009. Percentage shareholdings in this report have been rounded to the nearest whole number, unless otherwise indicated or unless figures are provided after the decimal point.

<sup>2</sup> After the balance sheet date, on November 15, as a result of the exercise of part of the options (series A), the Company's stake in CBI decreased to 63%.

<sup>3</sup> After the balance sheet date, on October 29, the Company's stake in Netvision increased to 31%, see also 3(f) below.

**Other** - Operations in this segment include, among others, Cargal Ltd. (26% owned), Jaf-Ora Ltd. (30% owned), Beit Shemesh Engines Holdings (1997) Ltd. (36% owned), Clal Energy Limited Partnership (100% owned), Clal Motors Ltd. (100% owned), Kitan Textile Industries Ltd. (100% owned), Nova Measuring Instruments Ltd. (21% owned), ECTel Ltd. ("ECTel") (17% owned), F.B.R. Infinity Israel II Fund (39% owned) and Infinity I-China (Israel 2) Fund, L.P. (9% owned).

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

## **2. RESULTS OF BUSINESS OPERATIONS**

### **a. Statements of income**

#### **1. Nine months ended September 30, 2009**

Total net income attributable to the Company's shareholders and to minority interests in the reported period amounted to NIS 515 million compared to NIS 133 million in the corresponding period of last year and NIS 133 million in all of 2008.

Net income attributable to the Company's shareholders in the reported period amounted to NIS 405 million compared to NIS 23 million in the corresponding period of last year and NIS 26 million in all of 2008.

In the reported period, current income amounted to NIS 164 million compared to NIS 32 million in the corresponding period of last year due to an increase in the segments' current contribution in the reported period totaling NIS 263 million compared to NIS 225 million in the corresponding period of last year and a decrease in financial, headquarter and other expenses to NIS 99 million compared to expenses of NIS 193 million in the corresponding period of last year. The main decrease in financial expenses stems from the decrease in the inflation rate, increase in the U.S. dollar-NIS exchange rate and from increases in the capital market.

The income in the reported period from realization of investments, adjustment of the value of investments and other net non-recurring factors, net amounted to NIS 241 million and includes mainly the amount by which the value of the assets and liabilities (net) attributable to the Company's additional acquisition of Hadera Paper's shares exceeds the amount paid for the acquisition of Hadera Paper's shares (negative goodwill) which reached NIS 113 million (see 3c below), gain from the expected decrease in tax rates of NIS 49 million, gain from the expiration of options for Golf's shares and gain from decrease in holdings in Golf after the exercise of options into Golf's shares of NIS 25 million, the amount by which the value of the assets and liabilities (net) attributable to CBI's additional stake of D-Pharm as a result of the issuance and capital raising exceeds the amount invested in D-Pharm by CBI (negative goodwill) which reached NIS 21 million, a gain from the decrease in CBI's holding rate in Andromeda of NIS 35 million, gain from Taavura's relocation to the alternative compound of NIS 12 million, less impairment loss of investment in ECTel of NIS 11 million and of NIS 14 million in Arcadian.

The loss in the corresponding period of last year from disposal of investments, adjustments of the values of investments and other net non-recurring factors totaled NIS 9 million and is mainly a result of loss from realization of investment in Saifun of NIS 20 million, impairment loss of investment in Arcadian of NIS 10 million, less dilution gains in CBI from Teva's investment in Andromeda and Curetech of NIS 8 million.

Basic net earnings per share in the reported period totaled NIS 2.57 compared to NIS 0.15 in the corresponding period of last year and NIS 0.16 for all of 2008. The diluted net earnings per share in the reported period totaled NIS 2.47 compared to NIS 0.12 in the corresponding period of last year and NIS 0.14 for all of 2008.

## **2. Three months ended September 30, 2009**

Total net income attributable to the Company's shareholders and to minority interests in the third quarter of 2009 amounted to NIS 226 million compared to NIS 52 million in the corresponding quarter of last year.

Net income attributable to the Company's shareholders in the third quarter of 2009 amounted to NIS 194 million compared to NIS 10 million in the corresponding quarter of last year.

In the third quarter of 2009, current income amounted to NIS 23 million compared to a loss of NIS 3 million in the corresponding quarter of last year due to an increase in the segments' current contribution in the third quarter of 2009 totaling NIS 77 million compared to NIS 59 million in the corresponding quarter of last year and a decrease in financial, headquarter and other expenses to NIS 54 million compared to expenses of NIS 62 million in the corresponding quarter of last year. The main decrease in financial expenses stems from the positive effect of the increases in the capital market.

The income in the third quarter of 2009 from realization of investments, adjustment of the value of investments and other net non-recurring factors, net amounted to NIS 171 million and includes mainly the amount by which the value of the assets and liabilities (net) attributable to the Company's additional acquisition of Hadera Paper's shares exceeds the amount paid for the acquisition of Hadera Paper's shares (negative goodwill) which reached NIS 113 million (see 3c below), gain from the expected decrease in tax rates of NIS 49 million, gain from decrease in holdings in Golf after the exercise of options into Golf's shares of NIS 10 million, the amount by which the value of the assets and liabilities (net) attributable to CBI's additional stake of D-Pharm as a result of the issuance and capital raising exceeds the amount invested in D-Pharm by CBI (negative goodwill) which reached NIS 21 million, less impairment loss of investment in ECTel of NIS 11 million and of NIS 14 million in Arcadian.

The income in the corresponding quarter of last year from disposal of investments, adjustments of the values of investments and other net non-recurring factors totaled NIS 13 million which included mainly dilution gains in CBI from Teva's investment in Andromeda and Curetech of NIS 8 million.

Basic net earnings per share in the third quarter of 2009 totaled NIS 1.24 compared to NIS 0.06 in the corresponding quarter of last year. The diluted net earnings per share in the third quarter of 2009 totaled NIS 1.23 compared to NIS 0.06 in the corresponding quarter of last year.

**EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009**

**b. Data of principal investees**

Data from the financial statements of principal investees <sup>4</sup>:

	<b>Revenues</b>				
	<b>Nine months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>September 30,</b>		<b>September 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
Companies that prepare financial statements in NIS (NIS in millions):					
Mashav (excluding Taavura)	1,126	1,201	366	406	1,560
Taavura	1,534	1,748	513	624	2,339
Hadera Paper	654	447	220	171	673
Golf	489	528	170	179	706
KBA	29	240	12	87	240
CBI	151	40	43	23	35
Netvision	932	917	321	317	1,235
A company that prepares financial statements in \$ (U.S. \$ in millions):					
Fundtech <sup>5</sup>	85	91	31	32	121

	<b>Net income (loss)</b>				
	<b>Nine months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>September 30,</b>		<b>September 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
Companies that prepare financial statements in NIS (NIS in millions):					
Mashav (excluding Taavura)	253	170	100	50	183
Taavura	109	70	25	17	77
Hadera Paper	70	59	35	20	70
Golf	64	75	15	22	101
KBA	18	145	8	53	145
CBI	82	(74)	19	(10)	(83)
Netvision	79	76	24	29	87
A company that prepares financial statements in \$ (U.S. \$ in millions):					
Fundtech	1.3	3.5	1.6	1.5	1.2

<sup>4</sup> The presented data refer to the results of investees disregarding the Company's holding rate therein and disregarding cancelations of inter-company and inter-segment transactions.

<sup>5</sup> Relates to financial statements published by Fundtech, according to generally accepted accounting principles in the United States. The Company includes the results of Fundtech according to IFRS.

**EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009**

**c. Analysis of results by operating segments <sup>6</sup> (NIS in millions)**

	Nine months ended September 30, 2009			Nine months ended September 30, 2008		
	Current	Other	Total	Current	Other	Total
Operating segments:						
Cement	172	33	205	127	-	127
Taavura	22	15	37	23	2	25
Hadera Paper	14	121	135	19	4	23
Golf	47	25	72	56	3	59
KBA	8	-	8	71	-	71
Fundtech	(6)	-	(6)	(3)	(2)	(5)
CBI	(8)	71	63	(55)	5	(50)
Netvision	3	1	4	2	-	2
Other	11	(14)	(3)	(15)	3	(12)
Total segment contributions	263	252	515	225	15	240
Financing and headquarters	(99)	(11)	(110)	(193)	(24)	(217)
Net income	164	241	405	32	(9)	23
	Three months ended September 30, 2009			Three months ended September 30, 2008		
	Current	Other	Total	Current	Other	Total
Operating segments:						
Cement	54	36	90	37	-	37
Taavura	6	3	9	4	2	6
Hadera Paper	7	115	122	3	5	8
Golf	11	10	21	17	3	20
KBA	4	-	4	25	-	25
Fundtech	2	-	2	(2)	(2)	(4)
CBI	(13)	34	21	(12)	5	(7)
Netvision	2	-	2	1	-	1
Other	4	(15)	(11)	(14)	-	(14)
Total segment contributions	77	183	260	59	13	72
Financing and headquarters	(54)	(12)	(66)	(62)	-	(62)
Net income	23	171	194	(3)	13	10
	Year ended December 31, 2008					
	Current	Other	Total			
Operating segments:						
Cement	153	(16)	137			
Taavura	26	2	28			
Hadera Paper	26	1	27			
Golf	75	2	77			
KBA	71	-	71			
Fundtech	(9)	(2)	(11)			
CBI	(57)	1	(56)			
Netvision	5	(4)	1			
Other	(31)	(22)	(53)			
Total segment contributions	259	(38)	221			
Financing and headquarters	(196)	1	(195)			
Net income	63	(37)	26			

<sup>6</sup> The analysis of results according to operating segments and the review of the segments is calculated based on the Company's holding rate in the relevant segment companies whereas the analysis of the operating results of the segments is performed based on the segment companies' actual performances.

## **Cement segment**

### **a. Review of the cement segment**

Net income in the reported period totaled NIS 205 million compared to NIS 127 million in the corresponding period of last year.

Net income in the third quarter of 2009 totaled NIS 90 million compared to NIS 37 million in the corresponding quarter of last year.

The increase in net income in the reported period and in the third quarter of 2009 compared to the corresponding period and quarter of last year, respectively, arises mainly from the increase in the current income of the cement segment and from recognition of income from the expected decrease in tax rate of NIS 21 million and from recognition of income from deduction of deferred taxes at the company attributable to initial difference of the cement activity of approximately NIS 15 million.

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

Revenues in the reported period totaled NIS 1,126 million compared to NIS 1,201 million in the corresponding period of last year (a 6% decrease), mainly due to the decrease in sales to the local market and decrease in export of CleanCare excesses, offset by the increased sales to the Palestinian Authority and the rise in prices in 2008 in the local and export markets.

Operating income in the reported period decreased by NIS 20 million compared to the corresponding period of last year as a result of the decrease in revenues as above alongside an increase in streamlining expenses which were offset by decrease the production costs as a result of decrease in volume of activity, closure of the furnace in the wet plant where production costs are higher than those of the Ramla plant and efficiency measures taken by the company. Also, costs of renovation in the reported period are lower compared to the costs in the corresponding period of last year due to partial renovation in the reported period.

Net income (less non-recurring income from decrease in tax rates of NIS 28 million) totaled NIS 225 million compared to NIS 170 million in the corresponding period of last year, this despite the decrease in operating income, as above, and as a result of transition to financial income of NIS 21 million compared to financial expenses of NIS 64 million in the corresponding period of last year, owing to the increase in the capital markets in the reported period, the positive effect of the revaluation of future transactions to hedge against CPI increases and a decrease in financial expenses due to reduced inflation rates.

Revenues in the third quarter of 2009 totaled NIS 366 million compared to NIS 406 million in the corresponding quarter of last year (a 10% decrease), mainly due to the decrease in sales to the local market and decrease in the export of CleanCare excesses, offset by the increased sales to the Palestinian Authority.

Operating income in the third quarter of 2009 decreased by approximately NIS 8 million compared to the corresponding quarter of last year. The decrease in revenues, as above, was offset by decrease the production costs as a result of decrease in volume of activity, closure of the furnace in the wet plant where production costs are higher than those of the Ramla plant and efficiency measures taken by the company.

As a result of decrease in the financial expenses by NIS 39 million compared to the corresponding quarter of last year owing to the increase in the capital markets in the quarter compared to decreases in the capital markets in the corresponding quarter of last year and the positive effect of the revaluation of future transactions to hedge against CPI increases, net income (less non-recurring income from decrease in tax rates of NIS 28 million) totaled NIS 72 million compared to NIS 50 million in the corresponding period of last year, despite the decrease in operating income as above.

## **Taavura**

### **a. Review of the Taavura segment**

Net income in the reported period totaled NIS 37 million compared to NIS 25 million in the corresponding period of last year. The increase in net income in the reported period compared to the corresponding period of 2008 stems mainly from recording net income from the relocation to the alternative compound in the amount of NIS 12 million.

Net income in the third quarter of 2009 totaled NIS 9 million compared to NIS 6 million in the corresponding quarter of last year. The increase in net income in the third quarter of 2009 compared to the corresponding quarter of 2008 stems mainly from recording income from the expected decrease in tax rates of NIS 3 million.

### **b. Review of the condensed operating results of Taavura**

Revenues in the reported period totaled NIS 1,534 million compared to NIS 1,748 million in the corresponding period of last year. The decrease is due primarily to the reduced volume of sales of vehicles in Europe, reduced sales of trucks in Israel and reduced transport related activities.

Operating income in the reported period totaled NIS 207 million compared to NIS 152 million in the corresponding period of last year. Most of the growth arises from recording income of NIS 56 million from the relocation to the alternative compound transaction and the decrease in diesel oil prices.

Financial expenses, net in the reported period totaled NIS 53 million compared to NIS 49 million in the corresponding period of last year. The increase in financial expenses is mainly a result of the inclusion of financial income from the exercise of an option to purchase shares in an associate of NIS 16 million in the corresponding period of 2008.

Net income in the reported period totaled NIS 109 million compared to NIS 70 million in the corresponding period of last year. The increase in net income in the reported period compared to last year is mainly a result of recording income after tax from the relocation to the alternative compound in the amount of NIS 41 million and the decrease in diesel oil prices net of financial income last year from the exercise of an option to purchase shares in an associate in a total of NIS 16 million.

Revenues in the third quarter of 2009 totaled NIS 513 million compared to NIS 624 million in the corresponding quarter of last year. The decrease is due to lower activities in the various segments, primarily in the auto segment in Europe.

Operating income in the third quarter of 2009 totaled NIS 51 million compared to NIS 58 million in the corresponding quarter of last year. The reduction is mostly attributable to lower revenues, as above, and to the recognition of negative goodwill in the corresponding period of last year from the acquisition of Maman's shares of NIS 5 million.

Financial expenses, net in the third quarter of 2009 totaled NIS 19 million compared to NIS 26 million in the corresponding quarter of last year. The decrease in financial expenses is mainly due to an increase in financial income from the revaluation of future transactions to hedge against CPI increases and changes in exchange rates of foreign currencies.

Net income in the third quarter of 2009 totaled NIS 25 million compared to NIS 17 million in the corresponding quarter of last year.

## **Hadera Paper**

### **a. Review of the Hadera Paper segment**

Net income in the reported period totaled NIS 135 million compared to NIS 23 million in the corresponding period of last year.

Net income in the third quarter of 2009 totaled NIS 122 million compared to NIS 8 million in the corresponding quarter of last year.

The increase in net income both in the reported period and in the third quarter of 2009 compared to the corresponding period of last year and the corresponding quarter of last year, respectively, derives mainly from the amount by which the value of the assets and liabilities (net) attributable to the Company's additional stake of Hadera Paper exceeds the amount paid for the acquisition of Hadera Paper's shares (negative goodwill) which reached NIS 113 million (see 3c below).

### **b. Review of the condensed operating results of Hadera Paper**

Revenues in the reported period totaled NIS 654 million compared to NIS 447 million in the corresponding period of last year (a 46% increase). The growth in sales is mainly attributable to the NIS 313 million difference arising on the inclusion of the results of two subsidiaries (Carmel Container Systems Ltd. and Frenkel K.D. Ltd.), which had been consolidated last year only in part of the period, offset by the reduced volume of sales of packaging paper and recycling in the amount of NIS 121 million due to the effect of the erosion in selling prices and reduced volume of revenues due to the significant excess supplies of packaging paper in Europe which led to the import of packaging paper at lower prices from Europe and reduced scopes of activity of corrugated cardboard manufacturers.

Gross profit in the reported period totaled NIS 93 million compared to NIS 96 million in the corresponding period of last year. The decrease in gross profit compared to the corresponding period of last year mostly resulted from reduced revenues in the field of packaging paper and recycling, as above, and the amortization of excess cost of NIS 3 million in respect of the acquisition of the two subsidiaries.

Operating income in the reported period totaled NIS 15 million compared to NIS 38 million in the corresponding period of last year. The decrease in operating income is mainly due to the erosion in selling prices and erosion of quantity of packaging paper and recycling as a result of import of packaging paper at dumping prices, offset by recording non-recurring income in the amount of NIS 16 million in respect of an unilateral dividend.

Hadera Paper's share of earnings of associates in the reported period totaled NIS 64 million compared to NIS 37 million in the corresponding period of last year owing to the improved results of the associates and the reduced losses of KCTR in Turkey.

Net income in the reported period totaled NIS 70 million compared to NIS 59 million in the corresponding period of last year.

Revenues in the third quarter of 2009 totaled NIS 220 million compared to NIS 171 million in the corresponding quarter of last year (a 30% increase). The main growth in revenues is a result of the NIS 112 million difference arising on the inclusion of the results of two subsidiaries (Carmel Container Systems Ltd. and Frenkel K.D. Ltd.), which had been consolidated last year only in part of the period, offset by the reduced volume of sales of packaging paper and recycling in the amount of NIS 28 million due to the effect of the erosion in selling prices and reduced volume of revenues due to the significant excess supplies of packaging paper in Europe which led to the import of packaging paper at lower prices from Europe and reduced scopes of activity of corrugated cardboard manufacturers.

Gross profit in the third quarter of 2009 totaled NIS 32 million compared to NIS 29 million in the corresponding quarter of last year.

Operating loss in the third quarter of 2009 totaled NIS 1 million compared to operating income of NIS 8 million in the corresponding quarter of last year. The reason for the decrease in operating income is mainly the inclusion of income of NIS 12 million from negative goodwill in the corresponding quarter of last year.

Hadera Paper's share of earnings of associates in the third quarter of 2009 totaled NIS 29 million compared to NIS 11 million in the corresponding quarter of last year owing mainly to the improved results of the associates and the reduction in the losses of KCTR in Turkey.

Net income in the third quarter of 2009 totaled NIS 35 million compared to NIS 20 million in the corresponding quarter of last year.

- c. As for the acquisition transaction of Hadera Paper's shares from Discount Investments Ltd. ("Discount Investments"), a company controlled by IDB Development Corporation Ltd., the Company's parent company, see 3c below.

## Golf

### a. Review of the Golf segment

Net income in the reported period totaled NIS 72 million compared to NIS 59 million in the corresponding period of last year. The increase in net income in the reported period is mainly a result of recognition of a gain of NIS 14 million from the expiration of the remaining stock options (series 1) of Golf and a gain of NIS 10 million from the exercise of part of the options (series 2), less the NIS 11 million fall in Golf's net income.

Net income in the third quarter of 2009 totaled NIS 21 million compared to NIS 20 million in the corresponding quarter of last year. The increase in net income derives from recognition of a gain of NIS 10 million from the exercise of part of the options (series 2) in the third quarter, less the NIS 6 million fall in Golf's net income.

### b. Review of the condensed operating results of Golf

Revenues in the reported period totaled NIS 489 million compared to NIS 528 million in the corresponding period of last year (a 7% decrease). The decrease in revenues in the reported period compared to the corresponding period of last year is a result both of the effects of the global economic crisis, as described in 1 above, and of the relatively hot weather in the first quarter of 2009 that reduced sales of the winter collection and the closing down of certain Golf shops during the "Cast Led" military operation.

Gross profit in the reported period amounted to NIS 292 million compared to NIS 321 million in the corresponding period of last year, representing in the reported period about 60% of revenues compared to 61% in the corresponding period of last year. The decline in the gross profit rate in the reported period compared to the corresponding period of last year derives mainly from the growing discounts primarily as an outcome of the economic condition, as above.

Operating income in the reported period totaled NIS 81 million compared to NIS 102 million in the corresponding period of last year. The main decrease in operating income is due to decrease in gross profit, as above, less the decrease in selling and marketing and general and administrative expenses of NIS 8 million compared to the corresponding period of last year.

Net income in the reported period totaled NIS 64 million compared to NIS 75 million in the corresponding period of last year. The decrease in net income in the reported period compared to last year is mainly a result of reduced sales, partly offset by the decrease in selling and administrative expenses and increase in financial income, net of NIS 8 million compared to the corresponding period of last year.

Revenues in the third quarter of 2009 totaled NIS 170 million compared to NIS 179 million in the corresponding quarter of last year (a 5% decrease).

Gross profit in the third quarter of 2009 amounted to NIS 96 million compared to NIS 108 million in the corresponding quarter of last year, representing in the third quarter of 2009 about 58% of revenues compared to 61% in the corresponding quarter of last year. The decline in the gross profit rate in the third quarter compared to the corresponding quarter of last year derives also from taking in the increase in the VAT rate and the growing discounts as an outcome of the economic condition, as above.

Operating income in the third quarter of 2009 totaled NIS 22 million compared to NIS 32 million in the corresponding quarter of last year. The main decrease in operating income is due to decrease in gross profit, as above, less the decrease in selling and marketing and general and administrative expenses of NIS 2 million compared to the corresponding quarter of last year.

Net income in the third quarter of 2009 totaled NIS 15 million compared to NIS 22 million in the corresponding quarter of last year. The decrease in net income is mainly a result of reduced sales, partly offset by the decrease in selling and administrative expenses.

## **KBA**

### **a. Review of the KBA segment**

Net income in the reported period totaled NIS 8 million compared to net income of NIS 71 million in the corresponding period of last year.

Net income in the third quarter of 2009 totaled NIS 4 million compared to net income of NIS 25 million in the corresponding quarter of last year.

### **b. Review of the condensed operating results of KBA**

Revenues in the reported period totaled NIS 29 million compared to NIS 240 million in the corresponding period of last year. The decrease in revenues is mainly due to the sale of a large real estate complex in Ashdod in the corresponding period of last year.

Operating income in the reported period totaled NIS 21 million compared to NIS 198 million in the corresponding period of last year. The decrease in operating income derives from reduced revenues.

Net income in the reported period totaled NIS 18 million compared to NIS 145 million in the corresponding period of last year. The decrease in net income derives from reduced revenues.

Revenues in the third quarter of 2009 totaled NIS 12 million compared to NIS 87 million in the corresponding quarter of last year. The decrease in revenues is mainly due to the sale of a large real estate complex in Ashdod in the corresponding quarter of last year.

Operating income in the third quarter of 2009 totaled NIS 9 million compared to NIS 73 million in the corresponding quarter of last year. The decrease in operating income derives from reduced revenues.

Net income in the third quarter of 2009 totaled NIS 8 million compared to NIS 53 million in the corresponding quarter of last year. The decrease in net income derives from reduced revenues.

## **Fundtech**

### **a. Review of the Fundtech segment**

Net loss in the reported period totaled NIS 6 million compared to NIS 5 million in the corresponding period of last year.

Net income in the third quarter of 2009 totaled NIS 2 million compared to net loss of NIS 4 million in the corresponding quarter of last year. The transition from loss in the corresponding quarter of last year to income in the third quarter of 2009 is a result of decrease in the current amortization of original differences attributable to the Company's investment in Fundtech.

### **b. Review of the condensed operating results of Fundtech**

Revenues in the reported period totaled \$ 85 million compared to \$ 91 million in the corresponding period of last year, a 7% decrease.

Operating income in the reported period amounted to \$ 1.6 million compared to \$ 4.6 million in the corresponding period of last year. The decrease in operating income derives from reduced revenues.

Net income in the reported period amounted to \$ 1.3 million compared to \$ 3.5 million in the corresponding period of last year. The decrease in income is primarily due to the decrease in operating income, as above.

Revenues in the third quarter of 2009 totaled \$ 31 million compared to \$ 32 million in the corresponding quarter of last year, a 3% decrease.

Operating income in the third quarter of 2009 amounted to \$ 1.7 million compared to \$ 2.8 million in the corresponding quarter of last year.

Net income in the third quarter of 2009 amounted to \$ 1.6 million compared to \$ 1.5 million in the corresponding quarter of last year.

## **CBI**

### **a. Review of the CBI segment**

Net income in the reported period totaled NIS 63 million compared to a loss of NIS 50 million in the corresponding period of last year. The transition to income arises from decrease in current loss of CBI by NIS 47 million and from recognition of gain from excess of acquired book value over cost of investment in D-Pharm of NIS 21 million, gain from decrease in CBI's stake in Andromeda of NIS 35 million and gain from sale of Compugen's shares of NIS 8 million.

Net income in the third quarter of 2009 totaled NIS 21 million compared to a loss of NIS 7 million in the corresponding quarter of last year. The transition to income arises primarily from recognition of gain from excess of acquired book value over cost of investment in D-Pharm of NIS 21 million and gain from sale of Compugen's shares of NIS 5 million.

### **b. Review of the condensed operating results of CBI**

Income in the reported period amounts to NIS 82 million compared to a loss of NIS 74 million in the corresponding period of last year. The transition from loss in the corresponding period of last year to income in the reported period is mainly a result of an increase in gain from decrease in the holding rate in subsidiaries and associates (NIS 71 million) due to the completion of the exercise of Teva's investment option in Andromeda and the gain recorded on the investment in D-Pharm, increase in value of financial derivatives (NIS 49 million), mainly financial derivatives relating to CBI's investment in Andromeda and transition to financial income (NIS 16 million) due to the changes in the U.S. dollar-NIS exchange rate.

Income in the third quarter of 2009 amounts to NIS 19 million compared to a loss of NIS 10 million in the corresponding quarter of last year. The transition from loss in the corresponding quarter of last year to income in the third quarter of 2009 is mainly a result of an increase in gain from decrease in the holding rate in subsidiaries and associates (NIS 18 million) due to the gain recorded on the investment in D-Pharm and increase in the value of financial derivatives (NIS 5 million), mainly financial derivatives relating to CBI's investment in Andromeda less increase in financial expenses (NIS 6 million) due to the changes in the U.S. dollar-NIS exchange rate.

## Netvision

### a. Review of the Netvision segment

Net income in the reported period totaled NIS 4 million compared to NIS 2 million in the corresponding period of last year.

Net income in the third quarter of 2009 totaled NIS 2 million compared to NIS 1 million in the corresponding quarter of last year.

### b. Review of the condensed operating results of Netvision

Revenue turnover in the reported period totaled NIS 932 million compared to NIS 917 million in the corresponding period of last year, an increase of about 1.7%, arising mainly from the increase in revenues from the internet connectivity field and increase in the number of customers, sale of related-connectivity products and the effect of the increase in the U.S. dollar-NIS exchange rate, less reduced revenues from telephone services primarily due to the reduced scope of minutes which is partly explained by the general decline in outgoing market in Israel.

Operating income in the reported period amounted to NIS 118 million compared to NIS 89 million in the corresponding period of last year. The main increase in operating income compared to the corresponding period of last year arises from the increase in revenues, as above, and decrease in communication expenses and streamlining efforts in general and administrative line items, less the effect of the decrease in the profitability of international calling cards and the effect of the increase in the U.S. dollar-NIS exchange rate on expenses relating to purchase of international minutes.

Netvision's net income in the reported period amounted to NIS 79 million compared to NIS 76 million in the corresponding period of last year. The main increase in income is a result of the improved operating income, as above, less increase in financial expenses and taxes of NIS 28 million compared to the corresponding period of last year.

Revenue turnover in the third quarter of 2009 totaled NIS 321 million compared to NIS 317 million in the corresponding quarter of last year, an increase of about 1.2%, arising mainly from the increase in revenues from the internet connectivity field and increase in the number of customers, sale of related-connectivity products and the effect of the increase in the U.S. dollar-NIS exchange rate, less reduced revenues from telephone services primarily due to the reduced scope of minutes which is partly explained by the general decline in outgoing market in Israel.

Operating income in the third quarter of 2009 amounted to NIS 38 million compared to NIS 35 million in the corresponding quarter of last year. The main increase arises from the increase in revenues, as above, and decrease in communication expenses and streamlining efforts in general and administrative line items, less the effect of the decrease in the profitability of international calling cards and the effect of the increase in the U.S. dollar-NIS exchange rate on expenses relating to purchase of international minutes.

Netvision's net income in the third quarter of 2009 amounted to NIS 24 million compared to NIS 29 million in the corresponding quarter of last year. The decrease in net income derives from increase in financial expenses and taxes of NIS 9 million compared to the corresponding quarter of last year.

- c. As for the acquisition transaction of Netvision's shares from Elron Electronic Industries Ltd. ("Elron"), which is 49% held by Discount Investments Ltd. ("Discount Investments"), see 3f below.

### **3. PRINCIPAL CHANGES IN INVESTMENTS AND IN INVESTEES**

#### **a. Hanson (Israel) Ltd.**

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

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

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

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

There is no certainty that the transaction will be consummated.

**b. Taavura**

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

**c. Hadera Paper**

- 1) On August 19, 2009, the Company's audit committee and Board approved the Company's engagement in an agreement with Discount Investments, whereby the Company will acquire from Discount Investments the latter's entire stake in Hadera Paper shares (representing 21.45% of Hadera Paper's share capital) in consideration of NIS 246 million. This amount is about 42% higher than the value of said holdings according to the equity attributable to the equity holders of Hadera Paper at September 30, 2009 and about 6% higher than the market value of these holdings at that date.

The price for Discount Investments' stake in Hadera Paper was determined in negotiations held between the parties following a valuation performed by an independent appraiser ("the appraiser") hired by the Company and Discount Investments ("the valuation"). According to the valuation, the fair value of Discount Investments' holdings in Hadera Paper at June 30, 2009 was estimated between NIS 223 million and NIS 268 million and on that basis the parties negotiated the payment to be made to the sellers for their holdings in Hadera Paper, NIS 246 million, as an approximate average range of said valuation which, at June 30, 2009, was 47% higher than the value of said holdings according to the equity attributable to the equity holders of Hadera Paper and about 30% higher than the market value of these holdings. The Company also received an independent opinion for the fairness and reasonableness of the determined consideration.

On September 24, 2009, the approvals of the general meetings of the Company and Discounts Investments were obtained and on September 30, 2009, the transaction was consummated. After closing, the Company's stake in Hadera Paper's share capital increased to about 59%.

Due to the increase in the holding rate in Hadera Paper, starting September 30, 2009, Hadera Paper's financial statements were consolidated for the first time in the Company's financial statements (the investment in Hadera Paper was presented until September 30, 2009 at equity). After closing, the Company hired the appraiser for evaluating the fair value of Hadera Paper's identifiable assets and liabilities, including intangible assets, and for estimating the remaining useful life of these assets ("the allocation project"). The allocation project is attached to these financial statements.

The adjustment of the value of the identifiable assets and liabilities (net) attributable to the Company's stake of Hadera Paper before the holdings of Discount Investments were acquired which reached NIS 312 million, was recognized immediately in the statement of comprehensive income whereas the amount by which the value of the identifiable assets and liabilities (net) attributable to the Company's additional stake of Hadera Paper as a result of the above acquisition exceeds the amount paid for the acquisition of Hadera Paper's shares (negative goodwill) which reached NIS 113 million, was recognized in other income in the statement of income.

As stated in Note 2b(1) to the Company's financial statements as of September 30, 2009, the Company is examining the effect of the early adoption of IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, including the possible implications of the early adoption on this transaction.

Further details are given in Note 3a(3) to the Company's financial statements as of September 30, 2009.

- 2) Information required in connection with a material valuation pursuant to Article 8b to the Securities Regulations (Periodic and Immediate Reports), 1970 is as follows:

<b>No. of regulation</b>	<b>Information required pursuant to the regulation</b>
8b(i)(1)	The subject of the valuation is the purchase price allocation (PPA) of 21.45% of Hadera Paper's shares which the Company acquired. The purpose of this valuation is to determine the way the assets and liabilities of Hadera Paper will be presented in the Company's financial statements starting from the date when the shares were acquired, September 30, 2009.
8b(i)(2)	The allocation project is based on the financial statements of Hadera Paper as of September 30, 2009.
8b(i)(3) and (4)	The PPA project examined several cash-generating units, as detailed in the opinion.

<b>No. of regulation</b>	<b>Information required pursuant to the regulation</b>
8b(i)(5)	<p>Identification of the appraiser: Vadim Portnoy Business Consulting Ltd., a private financial and business consulting company founded in 2004. Vadim Portnoy Business Consulting Ltd. is engaged in the following fields: valuations, mergers and acquisitions, economic and financial models, financial opinions and etc.</p> <p>The valuation was performed by Mr. Vadim Portnoy, CPA, who brings more than 12 years' experience in examining and performing projects such as those described above. Mr. Vadim Portnoy holds BA in accounting and economics and MBA (honors) in financing and accounting from the Hebrew University of Jerusalem.</p> <p>Mr. Vadim Portnoy, CPA, gained his experience before the consulting company was founded, among other things, in his work as a CPA of the Securities Authority and in Sawery Yuchman Ltd. At Vadim Portnoy Business Consulting Ltd. he performed large number of valuations with emphasis on business valuation with a view to close transaction, part in cooperation with others, the principal of which are: Israel Discount Bank, Cellecom Israel, Paz Oil Company, Pazgas 1993, Ormat Industries, Hot Communication Systems, and etc. In the past, Mr. Vadim Portnoy also performed valuations for Hadera Paper in September 2009 and March 2009.</p> <p>The appraiser is independent of the inviter of the valuation.</p> <p>In the context of the engagement, the liability of the performer for any type and sort of damages, except damages caused due to negligence and/or malice and/or intentionally was limited to the amount of the fee charged for the engagement. The appraiser received from the inviter of the valuation indemnification for any amount owed to a third party according to a peremptory rule relating to the preparation of this opinion and for reasonable legal expenses, unless it is determined that he conducted the opinion with negligence and/or malice and/or intentionally.</p>

<b>No. of regulation</b>	<b>Information required pursuant to the regulation</b>
8b(i)(6)	<p>The computation of the identifiable intangible assets is based on the principles of the discounted cash flow (DCF) model including the required adjustments for valuation of assets with limited lives.</p> <p>The value of land and machinery and equipment was determined by appraisers who have experience in the these categories. Their valuations were attached to the PPA.</p> <p>The value of options issued to employees was computed using the B&amp;S model.</p>
8b(i)(7)	<p>In the valuation, the appraiser used the assumptions:</p> <ul style="list-style-type: none"> <li>a) The discount rate used to determine the value of identifiable intangible assets of Hadera Paper and Mondi Business White Paper is 10% per year. The discount rate used to determine the value of intangible assets of Hogla-Kimberly is 10.75% per year.</li> <li>b) In computing the value of identifiable intangible assets, the growth rate for the cash flows during the valuation period was determined by the type of asset and its characteristic, as outlined in the opinion. In most cases, the growth rate was assumed to be 1.5% per year.</li> <li>c) Irrelevant.</li> <li>d) Irrelevant.</li> <li>e) Irrelevant.</li> <li>f) Irrelevant.</li> <li>g) Irrelevant.</li> </ul>

**d. Golf**

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

In the third quarter of 2009, Golf's options (series 2) were exercised. Consequently, the Company derived a gain of NIS 10 million.

As stated in Note 2b(1) to the Company's financial statements as of September 30, 2009, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the NIS 24 million gains will be carried directly to the Company's equity.

e. **CBI**

1) **Andromeda Biotech Ltd. ("Andromeda")**

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

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

In September 2009, CBI informed Andromeda of its intention to invest \$ 5.6 million in Andromeda, out of a total of \$ 7.5 million which CBI undertook to invest in Andromeda. The remaining investment of \$ 1.9 million will be invested in Andromeda by Teva pursuant to the Teva's investment agreement in Andromeda from February 2008. Close to the date of the announcement, of the overall investment amount, CBI invested in Andromeda \$ 1 million.

As for agreements signed in connection with Teva's investment in Andromeda and the amendment of the Develogen agreement, see Note 3a(5) to the Company's financial statements as of September 30, 2009.

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

**2) D-Pharm Ltd. ("D-Pharm")**

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

In August 2009, the issuance of D-Pharm's securities to the public according to a prospectus was completed. As a result, D-Pharm became a public company whose shares are listed on the Tel-Aviv Stock Exchange. In the context of the issuance, D-Pharm raised approximately NIS 28 million (before expenses) in exchange for about 1.7 million Ordinary shares of NIS 1 par value and about 1.7 million stock options that are exercisable into Ordinary shares of D-Pharm.

Upon completion of the public offering, the early raising, as stated above, was also completed and, simultaneously, loans that CBI and a third party gave D-Pharm were converted.

Following the completion of the public issuance, the early raising and the loan conversion, CBI's stake in D-Pharm's issued capital is about 47% and about 52% of D-Pharm's capital on a fully diluted basis (taking into account potential shares of D-Pharm on exercise of options that are exercisable immediately). Accordingly, starting that date, D-Pharm's financial statements are consolidated in CBI's financial statements (the investment in D-Pharm was presented until that date at equity).

CBI hired an independent appraiser for evaluating the fair value of D-Pharm's assets and liabilities, including intangible assets, at the date of initial consolidation and for estimating the remaining useful life of these assets.

In the context of the above business combination, the value of D-Pharm's assets and liabilities were adjusted to their fair value as determined in the valuation of the outside appraiser. The adjustment of the value of the assets and liabilities (net) attributable to CBI's stake of D-Pharm before the issuance and the capital raising, as above, the share of the equity holders of the Company which reached NIS 104 million was recognized immediately in the statement of comprehensive income whereas the amount by which the value of the assets and liabilities (net) attributable to CBI's additional stake of D-Pharm as a result of the issuance and capital raising exceeds the amount invested in D-Pharm by CBI (negative goodwill), the share of the equity holders of the Company which reached NIS 21 million) was recognized as income in the statement of income.

As stated in Note 2b(1) to the Company's financial statements as of September 30, 2009, the Company is examining the effect of the early adoption of IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, including the possible implications of the early adoption on this transaction.

- b) Information required in connection with a material valuation pursuant to Article 8b to the Securities Regulations (Periodic and Immediate Reports), 1970 is as follows:

<b>No. of regulation</b>	<b>Information required pursuant to the regulation</b>
8b(i)(1)	The subject of the valuation is the evaluation of the tangible and intangible assets acquired by Clal Biotechnology Industries Ltd. ("CBI") as a result of the transaction to purchase D-Pharm shares and achievement of control (51% on a fully diluted basis).
8b(i)(2)	The valuation is for the date when CBI acquired D-Pharm shares, namely, August 13, 2009.
8b(i)(3)	Irrelevant.

No. of regulation	Information required pursuant to the regulation
8b(i)(4)	<p>The value of the subject of the valuation according to the valuation work and the date of valuation is:</p> <p><i>Tangible assets:</i></p> <p>Net value of tangible assets - \$ 21.7 million</p> <p>Less value of liabilities to the Scientist - NIS 2.4 million</p> <p><b>Total net value of tangible assets - \$ 19.3 million</b></p> <p><i>Intangible assets:</i></p> <p>Product under development for ischemic stroke (DP-b99) - \$ 98.1 million</p> <p>Product under development for migraine and epilepsy (DP-VPA) - \$ 10.7 million</p> <p>Products under development in the pre-clinical trail stage - \$ 3.8 million</p> <p>Agreement with a Korean drug company (YJP) - \$ 2.2 million</p> <p>Agreement with Sure - \$ -0.3 million</p> <p><b>Total net value of tangible and intangible assets - \$ 134 million</b></p>
8b(i)(5)	<p>Identification of the appraiser: Variance Economic Consulting Ltd., a business, financial and economic consulting company. The valuation was headed by Mr. Ram Levi and Mr. Assaf Segal. Ram holds BA in accounting from the Business Management College (academic track). Ram also holds BA in life science and MBA in business management specializing in finance from Bar Ilan University. Ram brings 13 years' experience in performing similar or larger scopes of valuations. Ram's has experience in valuations of companies, works for allocation of PPA, tests for impairment of goodwill, building financial models and feasibility of projects. Assaf holds BA in economic and statistics from the Hebrew University of Jerusalem and MBA in business management specializing in finance, computers and information systems from the Business Administration School of the Hebrew University of Jerusalem. Assaf brings 9 years' experience in performing similar or larger scopes of valuations and is a leading and veteran appraiser of options and various benefit features, in particular, according to the relevant GAAP.</p>

<b>No. of regulation</b>	<b>Information required pursuant to the regulation</b>
	For this valuation, Variance did not receive any liability for indemnification.
8b(i)(6)	In the valuation, the appraiser applied the combination of the discounted cash flow (DCF) model and the real option valuation model as accepted for valuation of biotechnology companies, in general, and of drug companies under development, in particular. This model takes into account the significant milestones of the intangible assets and the probability of their realization.
8b(i)(7)	<p>In the valuation, the appraiser used the assumptions:</p> <ul style="list-style-type: none"> <li>g) Discount rate - discount rates were determined assuming that the company's product reaches the marketing and selling stage at the range of 12.36% and 12.71% (specific equity price was computed for each intangible asset based on the expected sale date).</li> <li>h) Irrelevant.</li> <li>i) Irrelevant.</li> <li>j) Irrelevant.</li> <li>k) Irrelevant.</li> <li>l) Irrelevant.</li> </ul> <p>Other key assumptions:</p> <ul style="list-style-type: none"> <li>m) The major intangible asset in the valuation is the product for ischemic stroke (DP-b99). The key assumptions in its valuation are as follows: <ul style="list-style-type: none"> <li>a. At the date of valuation, the product begins phase III clinical trial</li> <li>b. Total investments required until sale date - \$ 107 million</li> <li>c. Expected product sales - \$ 1.5 billion (record year)</li> </ul> </li> </ul>

No. of regulation	Information required pursuant to the regulation		
	d. The following table outlines the development stages, estimated date and the probability of compliance in each stage (given that the former stage was successful):		
	<b>Stage</b>	<b>Estimated date</b>	<b>Contingent probability of compliance</b>
	Phase III - <i>interim report</i> of trail I	second half of 2011	40%
	Phase III - final report of trail I	end of 2013	60%
	Phase III - trail II and registration for commercialization	end of 2015 (registration for commercialization in mid 2016)	62%
	*) Weighted probabilities based on scenarios.		

- c) D-Pharm informed on a cooperation agreement with the Chinese company Wangbang Biopharmaceuticals ("WB") in the context of which WB will finance Phase III trial in China in exchange for distribution rights in China. Also, WB will pay significant royalties from sales and \$ 25.5 million upon reaching milestones.

**3) Private placement to Migdal Insurance group ("Migdal")**

In September 2009, CBI allocated to several entities of the Migdal Insurance group 4,444,444 Ordinary shares and 2,857,143 non-marketable stock options to purchase 2,857,143 Ordinary shares of CBI for the total consideration of NIS 40 million (NIS 36 million of the proceeds was allocated to the shares and the balance to the stock options).

The stock options are exercisable from the date of issuance to September 30, 2010 such that each stock option is exercisable into one Ordinary share of CBI, subject to adjustments, in consideration of the exercise increment of NIS 14 in cash, subject to adjustments.

Migdal was conferred full ratchet right if the Company effects private placement to third parties in a price that is less than the allocation price to Migdal and preemptive right in relation to the allocated shares. These rights are in force until December 31, 2010.

As a result of the above issuance, the Company's stake in CBI's share capital decreased from about 67% to about 63.6% and the Company recorded a gain of NIS 8 million in the third quarter of 2009.

As stated in Note 2b(1) to the Company's financial statements as of September 30, 2009, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the NIS 8 million gain will be carried directly to the Company's equity.

**f. Netvision:**

- 1) On August 19, 2009, the Company's audit committee and Board approved the Company's engagement with Discount Investments in an agreement with Elron, whereby the Company and Discount Investments will acquire from Elron its entire stake in Netvision shares for NIS 49.6 per Netvision share such that the Company will acquire from Elron 6.69% of Netvision's share capital (6.19% on a fully diluted basis) in consideration of NIS 100 million and Discount Investments will acquire from Elron 8.55% of Netvision's share capital (7.92% on a fully diluted basis) in consideration of NIS 128 million ("the agreement"). It should be noted that the acquisition of Elron's stake in Netvision shares by the Company and Discount Investments (together, "the buyers") is divided between the buyers based on each buyer's interest in the shares of Netvision prior to the agreement.

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

The above transaction was subject to several prerequisites and it was consummated after the balance sheet date, see 7a below.

- 2) According to various valuations that Netvision performs as an outcome of the changes that occurred and that may occur in the communication market, Netvision is in very preliminary stages of examining the business combination with Cellecom Israel Ltd. which may involve corporate change on Netvision part.

**g. Clal Energy**

- 1) *Pumped energy* - Clal Energy is examining an investment in a project for the construction of a power station with a 220 MW capacity in the Nesher/Carmel Park area. In March 2009, the Company received from the Public Utilities Authority - Electricity a contingent license to construct a storage power station for the production of electricity using a pumped storage technology. The license is contingent on complying with the milestones detailed in the license, on financial closing and on obtaining the approvals of the planning authorities.

The project was declared as a national infrastructure by the Minister of the Interior, the Minister of Finance and the Prime Minister. Clal Energy has been authorized to promote the project at the National Infrastructure Committee.

There is no certainty that the facility, as above, will be constructed since its construction is subject, among other things, to obtaining all the approvals required by law (including the approval of the Company's authorized entities).

- 2) *Thermo solar power station project* - Clal Energy is examining the participation in two tenders published by the State of Israel for the construction of two thermo solar power stations (each with a 110 MW capacity) in Ashalim region in the Negev. For participating in the tenders, Clal Energy and Abengoa Solar S.A. of Spain ("Abengoa Solar"), a company specializing in leading technology in the solar energy field, established a partnership (Clal - Abengoa) in which each party holds 50%.

Clal - Abengoa passed the early selection stage of the tenders whose date of filing was postponed to March 2010. There is no certainty that it will win any of the tenders for the construction of thermo solar power stations.

- 3) *Photo Voltaic power station project* - Clal Energy is examining the participation in a tender that is expected to be published by the State of Israel in the first half of 2009 for the construction of up to two solar photo voltaic power stations each with a 15 MW capacity. For participating in the tender, Clal Energy and Abengoa Solar PV S.A. ("Abengoa PV") established a partnership in which each party holds 50%.

The partnership passed the early selection stage of the tender whose date of filing was postponed to March 2010. There is no certainty that it will win the tender for the construction of photo voltaic power station.

**h. Arcadian Networks Inc. ("Arcadian")**

In the third quarter of 2009, the Company recorded in its accounts NIS 16 million of impairment loss of its investment in Arcadian of which an amount of NIS 2 million was carried to capital reserve from revaluation of available-for-sale financial assets and NIS 14 million was carried to the statement of income in the line item loss from sale and impairment of investments and assets. The above allowance is based on a valuation of the fair value of the investment in Arcadian that the Company obtained from an independent outside appraiser.

**4. THE FINANCIAL POSITION AND FINANCING RESOURCES**

- a. Total assets in the consolidated balance sheet of the Company as of September 30, 2009, amounted to NIS 11,158 million compared to NIS 8,015 million as of December 31, 2008. The main increase is due to the initial consolidation of Hadera Paper and D-Pharm and to the revaluation of the assets and liabilities of these companies to their fair value.
- b. As of September 30, 2009, the Group's long-term external financing sources (less current maturities) amounted to NIS 3,833 million compared to NIS 3,136 million as of December 31, 2008. As of September 30, 2009, the Group's short-term financing sources (including current maturities) amounted to NIS 946 million compared to NIS 707 million as of December 31, 2008.
- c. The Company's equity as of September 30, 2009 amounted to NIS 4,335 million compared to NIS 2,414 million as of December 31, 2008. Equity attributable to equity holders of the Company amounted to NIS 2,504 million compared to NIS 1,688 million as of December 31, 2008. The main increase derives from gain arising to the Company on the initial consolidation of Hadera Paper and D-Pharm and recording revaluation reserve of NIS 467 million in equity.

The Company's equity as of September 30, 2009 represents a source for financing 39% of the Company's assets compared to 30% as of December 31, 2008.

- d. Consolidated working capital as of September 30, 2009 amounts to NIS 1,935 million compared to NIS 1,907 million as of December 31, 2008. As of September 30, 2009, total balances of liquid assets (cash and cash equivalents and short-term investments) amount to NIS 2,137 million compared to NIS 2,022 million as of December 31, 2008. The quick ratio as of September 30, 2009 is 1.48 compared to 1.56 at December 31, 2008.

- e. The principal cash sources in the reported period were mainly derived from cash flows from operating activities of NIS 577 million, proceeds from sale of fixed assets of NIS 46 million and the receipt of long-term loans and other liabilities of NIS 371 million. The cash sources were used primarily for investments in fixed assets and intangible assets totaling NIS 169 million, acquisition of newly consolidated companies of NIS 192 million, acquisition of associates and available-for-sale financial assets and advances on account of equity investment of NIS 84 million, interest payments and repayment of long-term loans of NIS 640 million and dividends paid to the minority of NIS 66 million.
- f. As of September 30, 2009, the balance of liabilities, net, of the Company and its wholly owned headquarter companies (mainly debentures) amounted to NIS 1,304 million (December 31, 2008 - NIS 1,148 million).
- g. The total balances of liquid assets (cash and cash equivalents and short-term investments) as of September 30, 2009 of the Company and its wholly owned headquarter companies amounted to NIS 669 million (December 31, 2008 - NIS 938 million).

## **5. SHELF PROSPECTUS**

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

## **6. CONTINGENT LIABILITIES**

### **a. Kitan**

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

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

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

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

On August 3, 2009, the parties filed a motion with the Court to approve the compromise. On September 2, 2009, the Court instructed to publish announcements of the compromise. On October 2, 2009, two residents of Dimona filed an objection to the compromise. The hearing was scheduled for January 10, 2010.

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

**b. Netvision**

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

In their review report of the financial statements, the Company's auditors draw attention to the claims mentioned in a and b above.

**7. EVENTS AFTER THE BALANCE SHEET DATE**

**a. Netvision Ltd.**

On October 29, 2009, the transaction to acquire Netvision's shares from Elron was consummated. As a result, the Company's stake in Netvision increased to about 31%, whereas Discount Investment's stake increased to about 39.7% and Elron no longer holds Netvision's shares. The Company acquired Netvision's shares at total cost of NIS 100 million. As a result of the acquisition, the Company derived excess of cost of NIS 29 million which, at this stage, according to the Company's estimates, will be mainly attributed to customer relations and goodwill.

**b. ECTel**

On October 22, 2009, ECTel signed a merger agreement, whereby cVidya Networks Ltd. will acquire ECTel from all its shareholders for the total cash consideration of approximately \$ 21 million (less transaction costs). According to the terms of the agreement, at closing, all of ECTel's shareholders will receive approximately \$ 1.26 per each share they hold. The expected consideration to the Company from the sale of its stake in ECTel is estimated at approximately \$ 3.5 million. As a result, the Company recorded a loss of NIS 11 million in its financial statements for the third quarter of 2009. The consummation of the transaction is subject to the fulfillment of prerequisites. There is no certainty that the transaction will be consummated.

**c. Dividends**

- 1) On November 19, 2009, the Company's Board decided to distribute a cash dividend of NIS 120 million, representing NIS 0.762052 per NIS 1 par value of shares. The dividend will be distributed on December 13, 2009. The record date was determined to be November 29, 2009 and the ex-date was determined to be November 30, 2009.
- 2) Below are details of the examination the Board conducted before accepting the decision to distribute the abovementioned dividend:
  - a) The Company's Board examined the Company's compliance with the profit criterion and the ability to pay criterion set in Article 302(a) to the Companies Law 1999. After this examination, the Board approved the Company's compliance with these criteria with respect to the distribution of the abovementioned dividend.
  - b) As for compliance with the profit criterion, the Board approved the distribution of the abovementioned dividend on the basis of the Company's balance of surplus as of September 30, 2009 which exceeds the dividend amount.

- c) As for compliance with the ability to pay criterion, the Board considered the following issues: information about the Company's financial condition, including information about the Company's liquid balances, the Company's debt balances and its net debt balance, the market value of the traded investments and the excess of liquid investments and traded investments over the Company's net debt, expected future cash flows for the Company through 2011, breakdown of the Company's debt payments, the additional financing sources available to the Company, including the receipt of dividends from investees, disposal of investments and raising funds, compliance with the rating for the Company's debentures. After these issues were examined, the Board approved the Company compliance with the ability to pay criterion with respect to the distribution of the abovementioned dividend, including in conservative scenarios by reference to expected future proceeds from dividends and disposal of investments.
- d) The Board believes that the distribution of dividend will have no material adverse effect on the Company's financial position, including on its capital structure, level of leverage, liquidity condition and its ability to continue to operate in its present format.

The forecasted information and estimates stated in c and d above are within the bounds of prospective information as defined in the Securities Act, 1968, and which is based on the Company's analysis of the information in c above. These forecasts and estimates may not occur, in whole or in part, or it may occur in a different manner than that was foreseen, among other things, due to changes in the financial markets in Israel and around the world, changes in the conditions in the capital market, the rate of inflation, exchange rates, the conditions in the different markets in which the Company's investees operate, political and security changes and regulatory changes which may impact the operations of the Company and its investees.

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

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

**c. Market risks to which the Corporation is exposed**

The Corporation is exposed to a variety of market risks during the ordinary course of its business. Such risks relate primarily to changes in the prices of marketable securities that could affect the value of the Corporation and that could also affect its operating results and equity. In addition, the Corporation is exposed to changes in interest rates, rate of inflation and currency exchange rates, all of which affect, both directly and indirectly, its operating results and the value of its assets and liabilities.

As for the global economic crisis, see 1 above.

**d. The Corporation's policies with respect to the management of market risks**

The Corporation owns a large number of marketable securities of investees. In general, the Company does not hedge its investments in marketable securities in view of, among other things, the extent size amount of the Company's investments in marketable securities, the diversity of investments both in and outside of Israel, the diversity of investments in different business segments, the diversity of investments in various securities, as well as the legal restrictions on the purchase of certain derivative instruments. The Corporation attempts to match, to the extent possible, the linkage bases of its financial assets with those of its liabilities and the average maturities of its financial assets with those of its liabilities.

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

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

**e. Methods of supervision and implementation of policies**

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

- 1) To enter into hedging transactions, from time to time, at its discretion, including forward exchange transactions, options and other financial instruments (with respect to principal or interest), for the purpose of reducing or completely eliminating such exposures as may arise from time to time in consequence of the financial structure of the Corporation and/or in order to reduce financial expenses.
- 2) With respect to exposure to index related risks - the Corporation, subject to the market's supply of hedging transactions, the terms of these transactions and the forward looking index projections, aspires to reduce exposure in respect of index risks.
- 3) These hedging transactions will be held until they expire or until the time the debt expires so that, in any event, the hedging transactions will be in an amount and for a period not exceeding the index-linked debt amount and term.

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

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

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

	<b>Linked to the Israeli CPI</b>	<b>Linked to U.S. dollar</b>	<b>Unlinked</b>	<b>Non- monetary balances</b>	<b>Total</b>
	<b>NIS in millions</b>				
Current assets	120	99	477	1	697
Non-current assets	6	2	28	3,818	3,854
Current liabilities	(247)	(16)	(43)	-	(306)
Non-current liabilities	(1,727)	-	(3)	(11)	(1,741)
Balance sheet, net	(1'848)	85	459	3,808	2,504

**g. Subsidiaries**

Subsidiaries are exposed to fluctuations in prices of raw materials, energy and changes in exchange rates, interest rates and inflation that affect the revenues and expenses of these companies. Some subsidiaries adjust their sources of revenues and expenses to same currency. Certain subsidiaries enter into hedging transactions in foreign currency derivatives designated to reduce exposure to foreign currency and hedging transactions in order exposure to index related risks. A subsidiary utilizes contracts for periods of up to one year in various commodities and energy products in order to hedge unexpected increases in prices on the global market.

**h. Consolidated linkage basis report as of September 30, 2009**

	<b>Linked to the Israeli CPI</b>	<b>Linked to U.S. dollar</b>	<b>Linked to other foreign currencies</b>	<b>Unlinked</b>	<b>Non- monetary balances</b>	<b>Total</b>
	<b>NIS in millions</b>					
Current assets	262	525	202	2,317	892	4,198
Non-current assets	90	130	2	51	6,687	6,960
Current liabilities	(601)	(109)	(203)	(1,285)	(65)	(2,263)
Non-current liabilities	(2,897)	(49)	(52)	(815)	(747)	(4,560)
Balance sheet, net	<u>(3,146)</u>	<u>497</u>	<u>(51)</u>	<u>268</u>	<u>6,767</u>	<u>4,335</u>

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

**1. Assumptions**

- a) The fair value of marketable securities is measured at their quoted market prices as of September 30, 2009.
- b) The fair value of debentures was calculated using the current value of future cash flows including discounted interest, at the interest that the Company would have received and at a similar debt ranking had the Company raised/borrowed liabilities with a similar average life based on the effective interest in respect of the marketable debentures or a quotation received by the Company from a financial institution as of balance sheet date. The fair value of debentures listed for trade on the stock exchange is measured based on their quoted market prices at September 30, 2009.
- c) The fair value of long-term loans and liabilities was calculated at the current value of the future cash flows including interest in respect of these liabilities, discounted by the interest that the Company would have received from a bank had it borrowed a similar amount with a similar maturity term.

## EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009

- d) The fair value of NIS/CPI forward contracts and NIS/U.S. dollar options was presented at a quotation received by the Company from financial institutions.

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

<u>The instrument</u>	Sensitivity test to changes in U.S. dollar exchange rate				
	Gain (loss) from changes		Fair value at 30.9.09	Gain (loss) from changes	
	10%	5%		5%	10%
	exchange rate increase	exchange rate increase	NIS in millions	exchange rate decrease	exchange rate decrease
Cash and cash equivalents	31	16	314	(16)	(31)
Trade and other receivables	13	6	124	(6)	(13)
Short-term investments excluding financial derivatives	8	4	78	(4)	(8)
Loans and receivables including current maturities	1	0	8	0	(1)
Other long-term investments excluding financial derivatives	2	1	16	(1)	(2)
Financial derivatives	11	5	105	(5)	(11)
Trade and other payables	(9)	(5)	(92)	5	9
Other long-term liabilities	(3)	(2)	(33)	2	3
Financial derivatives	(3)	(1)	(26)	1	3
<b>Total</b>	<b>51</b>	<b>24</b>	<b>494</b>	<b>(24)</b>	<b>(51)</b>
NIS/U.S. dollar options	(1)	(1)	1	1	2
NIS/U.S. \$ forward transaction	*	*	2	*	*
<b>Total</b>	<b>50</b>	<b>23</b>	<b>497</b>	<b>(23)</b>	<b>(49)</b>

<u>The instrument</u>	Sensitivity test to changes in Euro exchange rate				
	Gain (loss) from changes		Fair value at 30.9.09	Gain (loss) from changes	
	10%	5%		5%	10%
	exchange rate increase	exchange rate increase	NIS in millions	exchange rate decrease	exchange rate decrease
Cash and cash equivalents	5	3	53	(3)	(5)
Trade and other receivables	3	2	33	(2)	(3)
Short-term deposits and other loans	3	2	32	(2)	(3)
Trade and other payables	(16)	(8)	(158)	8	16
Loans from banks including current maturities	(4)	(2)	(42)	2	4
Other liabilities including current maturities	(2)	(1)	(18)	1	2
<b>Total</b>	<b>(11)</b>	<b>(4)</b>	<b>(100)</b>	<b>4</b>	<b>11</b>
NIS/Euro forward transaction	9	5	1	(4)	(8)
<b>Total</b>	<b>(2)</b>	<b>1</b>	<b>(99)</b>	<b>*</b>	<b>3</b>

\*) Lower than NIS 1 million.

## EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009

<b>The instrument</b>	<b>Sensitivity test to changes in interest rates</b>				
	<b>Gain (loss) from changes</b>			<b>Gain (loss) from changes</b>	
	<b>10%</b>	<b>5%</b>	<b>Fair value at 30.9.09</b>	<b>5%</b>	<b>10%</b>
	<b>interest rate increase</b>	<b>interest rate increase</b>		<b>interest rate decrease</b>	<b>interest rate decrease</b>
NIS in millions					
Loans and receivables including current maturities	*	*	94	*	*
Debentures	45	23	(3,608)	(23)	(47)
Loans from banks and other including current maturities	9	4	(936)	(4)	(9)
Current financial liabilities	*	*	40	*	*
<b>Total</b>	<b>54</b>	<b>27</b>	<b>(4,410)</b>	<b>(27)</b>	<b>(56)</b>

<b>The instrument</b>	<b>Sensitivity test to changes in quoted market rates</b>						
	<b>Gain (loss) from changes</b>			<b>Fair value at 30.9.09</b>	<b>Gain (loss) from changes</b>		
	<b>35% rate</b>	<b>10% rate</b>	<b>5% rate</b>		<b>5% rate</b>	<b>10% rate</b>	<b>31% rate</b>
	<b>increase</b>	<b>increase</b>	<b>increase</b>	<b>decrease</b>	<b>decrease</b>	<b>decrease</b>	
NIS in millions							
Current short-term investments – marketable securities	N/A	52	26	520	(26)	(52)	N/A
Available-for-sale financial assets	1	*	*	4	*	*	(1)
<b>Total</b>	<b>1</b>	<b>52</b>	<b>26</b>	<b>524</b>	<b>(26)</b>	<b>(52)</b>	<b>(1)</b>

<b>The instrument</b>	<b>Sensitivity test to changes in Israeli CPI</b>				
	<b>Gain (loss) from changes</b>		<b>Fair value at 30.9.09</b>	<b>Gain (loss) from changes</b>	
	<b>2% CPI</b>	<b>1% CPI</b>		<b>1% CPI</b>	<b>2% CPI</b>
	<b>increase</b>	<b>increase</b>	<b>decrease</b>	<b>decrease</b>	
NIS in millions					
Short-term investments	5	2	226	(2)	(5)
Loans and receivables including current maturities	1	1	51	(1)	(1)
Debentures	(67)	(33)	(3,344)	33	67
Loans from banks including current maturities	(3)	(1)	(142)	1	3
Current tax liabilities	(1)	(1)	(65)	1	1
<b>Total</b>	<b>(65)</b>	<b>(32)</b>	<b>(3,274)</b>	<b>32</b>	<b>65</b>
Forward CPI not recognized for accounting purposes	22	12	26	(12)	(22)
<b>Total</b>	<b>(43)</b>	<b>(20)</b>	<b>(3,248)</b>	<b>20</b>	<b>43</b>

\*) Lower than NIS 1 million.

**EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009**

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

<b>The instrument</b>	<b>Sensitivity test to changes in U.S. dollar exchange rate</b>				
	<b>Gain (loss) from changes</b>		<b>Fair value at 30.9.08</b>	<b>Gain (loss) from changes</b>	
	<b>10%</b>	<b>5%</b>		<b>5%</b>	<b>10%</b>
	<b>exchange rate increase</b>	<b>exchange rate increase</b>	<b>exchange rate decrease</b>	<b>exchange rate decrease</b>	
			<b>NIS in millions</b>		
Cash and cash equivalents	38	19	380	(19)	(38)
Trade and other receivables	11	6	115	(6)	(11)
Short-term investments	6	2	56	(2)	(6)
Financial derivatives	5	3	51	(3)	(5)
Long-term deposits and loans including current maturities	*	*	5	(*)	(*)
Trade and other payables	(6)	(3)	(61)	3	6
Other long-term liabilities	(1)	(*)	(9)	*	1
Financial derivatives	(4)	(2)	(38)	2	4
<b>Total</b>	<b>49</b>	<b>25</b>	<b>499</b>	<b>(25)</b>	<b>(49)</b>
NIS/U.S. forward transaction	3	2	(*)	(2)	(3)
<b>Total</b>	<b>52</b>	<b>27</b>	<b>499</b>	<b>(27)</b>	<b>(52)</b>

<b>The instrument</b>	<b>Sensitivity test to changes in Euro exchange rate</b>				
	<b>Gain (loss) from changes</b>		<b>Fair value at 30.9.08</b>	<b>Gain (loss) from changes</b>	
	<b>10%</b>	<b>5%</b>		<b>5%</b>	<b>10%</b>
	<b>exchange rate increase</b>	<b>exchange rate increase</b>	<b>exchange rate decrease</b>	<b>exchange rate decrease</b>	
			<b>NIS in millions</b>		
Trade receivables	3	1	27	(1)	(3)
Short-term investments	*	*	2	(*)	(*)
Cash	4	2	37	(2)	(4)
Long-term deposits and loans including current maturities	*	*	2	(*)	(*)
Loans from banks including current maturities	(3)	(1)	(25)	1	3
Trade and other payables and current liabilities	(11)	(6)	(111)	6	11
<b>Total</b>	<b>(7)</b>	<b>(4)</b>	<b>(68)</b>	<b>4</b>	<b>7</b>
NIS/Euro forward transaction	5	2	(3)	(2)	(5)
<b>Total</b>	<b>(2)</b>	<b>(2)</b>	<b>(71)</b>	<b>2</b>	<b>2</b>

<b>The instrument</b>	<b>Sensitivity test to changes in interest rates</b>				
	<b>Gain (loss) from changes</b>		<b>Fair value at 30.9.08</b>	<b>Gain (loss) from changes</b>	
	<b>10%</b>	<b>5%</b>		<b>5%</b>	<b>10%</b>
	<b>interest rate increase</b>	<b>interest rate increase</b>	<b>interest rate decrease</b>	<b>interest rate decrease</b>	
			<b>NIS in millions</b>		
Debentures	81	41	(3,051)	(42)	(85)
Loans from banks including current maturities	5	3	(670)	(2)	(4)
<b>Total</b>	<b>86</b>	<b>44</b>	<b>(3,721)</b>	<b>(44)</b>	<b>(89)</b>

\*) Lower than NIS 1 million.

## EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009

<b>The instrument</b>	<b>Sensitivity test to changes in quoted market rates</b>						
	<b>Gain (loss) from changes</b>			<b>Fair value at 30.9.08</b>	<b>Gain (loss) from changes</b>		
	<b>32% rate increase</b>	<b>10% rate increase</b>	<b>5% rate increase</b>		<b>5% rate decrease</b>	<b>10% rate decrease</b>	<b>22% rate decrease</b>
	<b>NIS in millions</b>						
Government bonds	N/A	30	15	305	(15)	(30)	N/A
Corporate bonds	N/A	33	16	335	(16)	(33)	N/A
Available-for-sale financial assets	N/A	1	*	14	(*)	(1)	N/A
Available-for-sale financial assets	5	2	1	16	(1)	(2)	(5)
<b>Total</b>	<b>5</b>	<b>66</b>	<b>32</b>	<b>670</b>	<b>(32)</b>	<b>(66)</b>	<b>(5)</b>

<b>The instrument</b>	<b>Sensitivity test to changes in Israeli CPI</b>				
	<b>Gain (loss) from changes</b>		<b>Fair value at 30.9.09</b>	<b>Gain (loss) from changes</b>	
	<b>2% CPI increase</b>	<b>1% CPI increase</b>		<b>1% CPI decrease</b>	<b>2% CPI decrease</b>
	<b>NIS in millions</b>				
Debentures	(61)	(31)	(3,051)	31	61
Forward CPI not recognized for accounting purposes	20	10	33	(10)	(20)
<b>Total</b>	<b>(41)</b>	<b>(21)</b>	<b>(3,018)</b>	<b>21</b>	<b>41</b>

### 9. MEMBERS OF THE BOARD OF DIRECTORS

#### a. Changes in Board members

- 1) On March 17, 2009, Mrs. Alicia Rotbard completed her term as external director in the Company possessing accounting and financial skills.
- 2) On March 22, 2009, the general meeting of the Company approved the appointment of Mrs. Liora Polchek as external director possessing professional skills and the appointment of Mr. Ze'ev Ben Asher as an external director having accounting and financial skills.
- 3) On April 28, 2009, Mr. Nahum Langental terminated his term as member of the Board possessing professional skills.

- b. The Company has chosen not to adopt in its articles of association the directive allowed by Article 219(e) to the Companies Law, 1999 regarding the percentage of independent directors.

## 10. PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

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

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

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

**11. DECREASE IN TAX RATES**

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

The effect of the abovementioned change on the balances of deferred taxes has been an increase in net income attributable to equity holders of the Company of NIS 49 million, of which NIS 50 million was carried to the line item taxes on income and NIS 11 million to Group's share of earnings of associates (less NIS 12 million which is attributable to minority interest).

**EXECUTIVE SUMMARY AS OF SEPTEMBER 30, 2009**

**12. SPECIFIC REPORTING TO HOLDERS OF LIABILITY CERTIFICATES**

**a. Data of debentures**

Name of debenture	Issuance date *)	Issued par value	Par value balance	Linked par value balance	Accrued interest	Book value	Quoted market price	Interest type	Principal payment dates	Interest payment dates	linkage	Details of trustee
Series I	13.08.2001	86	37	45	0	45	47	Fixed 5.7%	7 annual payments from 30.08.06	Annual 30.08	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv. - CEO, 1 Azrieli Center, Round Tower, Tel-Aviv, Israel, 972-3-6005946
Series K	12.11.2003	137	78	90	2	90	97	Fixed 5.95%	7 annual payments from 31.05.07	Annual 31.5	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv. - CEO, 1 Azrieli Center, Round Tower, Tel-Aviv, Israel, 972-3-6005946
Series L	02.05.2005	333	451	517	16	518	552	Fixed 4.35%	5 annual payments from 10.01.09	Annual 10.01	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv. - CEO, 1 Azrieli Center, Round Tower, Tel-Aviv, Israel, 972-3-6005946
	25.05.2005	140										
	11.04.2006	91										
	Total	564										
Series M <sup>7</sup>	02.06.2005	70	533	606	8	579	632	Fixed 4.5%	5 annual payments from 13.06.2013	Annual 10.06	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv. - CEO, 1 Azrieli Center, Round Tower, Tel-Aviv, Israel, 972-3-6005946
	11.04.2006	151										
	13.07.2006	342										
	Total	563										
Series N <sup>8</sup>	16.01.2007	500	477	532	18	530	541	Fixed 4.9%	5 annual payments from 16.01.2018	Annual 16.01	CPI	Reznik Paz Nevo Trustees Ltd., Mr. Yossi Reznik - CEO, 14 Yad Harutzim St., Tel-Aviv, Israel 972-3-6393311 (c)

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

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

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

**b. Rating of outstanding series of liability certificates**

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

On July 29, 2009, Maalot published an update to the rating of the Company's debentures from AA to A+. It also announced the removal of the debentures from the Credit Watch with negative outlook. According to Maalot's announcement, the rating forecast is stable. The update was attached in an appendix to the Company's executive summary report as of June 30, 2009.

As for changes in the debt solvency of the Company's significant investees, see d below.

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

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

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

**d. Changes in the rating of the Company's significant investees**

- 1) In August 2009, Standard & Poor Maalot Ltd. ("Maalot") announced that it had updated the rating for the debentures (series A to C) of Mashav Initiating and Development Ltd. ("Mashav") from AA to AA-. The rating forecast is stable. Maalot indicated that the lower rating is an outcome of the decline in the rating for the parent company, CII, whose debenture rating was brought down in July 2009. The lower rating does not derive from any impairment of the financial profile nor of the business profile of Mashav group, for which Maalot valuation remained in tact.
- 2) In August 2009, Maalot announced that it had updated the rating for the debentures (series A) of Taavura from AA- to A+. The rating forecast is stable. Maalot indicated that the lower rating reflects the continuing slowdown in the business environment in which Taavura group operates and its effect on the financial profile of the Group. Nonetheless, the current rating continues to reflect its high competitive status, the broad diversification of its business and the financial profile which is appropriate to the Group's rating level.

Likewise, in August 2009, Maalot announced that it had updated the rating for the debentures (series 1) of Maman Cargo Terminals and Handling Ltd. ("Maman") from AA- to A+. The rating forecast is stable. Maalot indicated that Maman's preparation to compete in the aviation cargo terminals led to intensified exposure in segments which, in Maalot's opinion, are characterized with higher level of risk. Similarly, there is a continuing slowdown in the business environment in which Maman operates which led to decline in profitability and erosion of financial ratios.

- 3) In October 2009, Maalot announced that it had updated the rating for the debentures of Hadera Paper to A+/Negative Outlook. Maalot indicated that lower rating reflects mainly the significant deterioration in the paper product segment which is reflected in reduced demands and prices, the increase in the financial leverage of Hadera Paper compared to Maalot expectations in the last checkup date and the challenge faced by Hadera Paper group in the current business climate, in identifying markets and reaching profitability that will match the increased production capacity.

### **13. DONATIONS AND SUPPORTING THE COMMUNITY**

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

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

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**Nochi Dankner**  
Chairman of the Board

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**Avi Fisher**  
Director and Co-CEO

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**Zvika Livnat**  
Co-CEO

# **CLAL INDUSTRIES AND INVESTMENTS LTD.**

**SEPTEMBER 30, 2009**

- **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**The English version of the 3<sup>rd</sup> quarter of 2009 is a translation of part of the Hebrew version, and is made for convenience purposes only. Please note that the Hebrew version constitutes the binding version.**

**CLAL INDUSTRIES AND INVESTMENTS LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2009**

**UNAUDITED**

**INDEX**

	<u>Page</u>
<b>Review of Interim Consolidated Financial Statements</b>	<b>2 - 3</b>
<b>Consolidated Balance Sheets</b>	<b>4 - 5</b>
<b>Consolidated Statements of Income</b>	<b>6</b>
<b>Consolidated Statements of Comprehensive Income</b>	<b>7</b>
<b>Consolidated Statements of Changes in Equity</b>	<b>8 - 9</b>
<b>Consolidated Statements of Cash Flows</b>	<b>10 - 12</b>
<b>Notes to Interim Consolidated Financial Statements</b>	<b>13 - 42</b>
<b>Appendix to Interim Consolidated Financial Statements</b>	<b>43</b>

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

### **Introduction**

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

We did not review the condensed interim financial information of certain subsidiaries, whose assets constitute approximately 41% of total consolidated assets as of September 30, 2009, and whose revenues constitute approximately 39% and 38% of total consolidated revenues for the nine and three months then ended, respectively. In addition, we did not review the condensed interim financial information of certain associates, the investment in which, at equity, amounted to approximately NIS 1,423 million as of September 30, 2009, and the Group's share in their earnings amounted to approximately NIS 35 million and NIS 19 million for the nine and three months then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

### **Scope of review**

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

### **Conclusion**

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

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

Without qualifying our above conclusion, we draw attention to Note 5 to the financial statements regarding claims filed against investees and motions to recognize these claims as class actions.

## **Pro forma financial information**

We have reviewed the accompanying pro forma financial information of the Company, which comprises the condensed consolidated pro forma statements of income for the nine and three months ended September 30, 2009, which are disclosed in Note 3a(3) to the financial statements. The Company's board of directors and management are responsible for the preparation and presentation of interim pro forma financial information in accordance with the accounting policies outlined in Note 2 and the assumptions outlined in Note 3a(3) to the financial statements and are responsible for the preparation of interim pro forma financial information in accordance with Regulation 38b to the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim pro forma financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose revenues constitute approximately 41% of total consolidated pro forma revenues for the nine and three months ended September 30, 2009. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors. In addition, we did not review the interim pro forma financial information of certain associates presented at equity in which the Group's share in their earnings in the consolidated pro forma statements amounted to approximately NIS 55 million and NIS 29 million for the nine and three months then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

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

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying pro forma financial information is not prepared, in all material respects, in accordance with the accounting policies outlined in Note 2 and the assumptions outlined in Note 3a(3) to the pro forma financial information.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying pro forma financial information does not comply, in all material respects, with Regulation 38b to the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
November 19, 2009

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

**CONSOLIDATED BALANCE SHEETS**

	<b>September 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>*) 2008</b>	<b>2008</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>NIS in millions</b>		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	1,235	1,152	1,306
Short-term investments	902	759	716
Trade receivables	970	710	703
Other receivables	207	100	86
Inventory	849	854	889
Financial derivatives	35	44	16
	<u>4,198</u>	<u>3,619</u>	<u>3,716</u>
<b>NON-CURRENT ASSETS:</b>			
Inventory of real estate properties	25	29	29
Loans and receivables	155	43	78
Available-for-sale financial assets	129	169	154
Financial derivatives	104	40	76
Prepaid expenses and operating lease rights	193	41	47
Investments in associates	1,854	1,047	1,039
Investment property	256	254	252
Fixed assets, net	3,273	2,123	2,178
Intangible assets, net	896	359	400
Assets in respect of employee benefits	23	23	18
Deferred taxes	52	23	28
	<u>6,960</u>	<u>4,151</u>	<u>4,299</u>
<u>Total assets</u>	<u>11,158</u>	<u>7,770</u>	<u>8,015</u>

\*) Reclassified, see Note 2c.

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

**CONSOLIDATED BALANCE SHEETS**

	<b>September 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>*) 2008</b>	<b>2008</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>NIS in millions</b>		
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks and others	535	246	411
Current maturities of debentures	411	296	296
Trade payables	540	400	432
Taxes payable	80	87	36
Other payables	681	528	568
Financial derivatives	16	20	66
	<u>2,263</u>	<u>1,577</u>	<u>1,809</u>
<b>LONG-TERM LIABILITIES:</b>			
Loans from banks and others	820	426	449
Debentures	3,013	2,755	2,687
Financial derivatives	18	24	37
Deferred taxes	348	304	311
Liabilities in respect of employee benefits	236	201	223
Other long-term liabilities	125	92	85
	<u>4,560</u>	<u>3,802</u>	<u>3,792</u>
<b>EQUITY:</b>			
Share capital	1,257	1,257	1,257
Share premium	574	574	574
Capital reserves	406	(46)	7
Retained earnings (accumulated deficit)	267	(145)	(150)
	<u>2,504</u>	<u>1,640</u>	<u>1,688</u>
<u>Total equity</u> attributable to equity holders of the Company	<u>2,504</u>	<u>1,640</u>	<u>1,688</u>
Minority interests	<u>1,831</u>	<u>751</u>	<u>726</u>
<u>Total equity</u>	<u>4,335</u>	<u>2,391</u>	<u>2,414</u>
<u>Total liabilities and equity</u>	<u>11,158</u>	<u>7,770</u>	<u>8,015</u>

\*) Reclassified, see Note 2c.

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

.....  
**Nochi Dankner**  
Chairman of the Board

.....  
**Zvika Livnat**  
Co-CEO

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

.....  
**Yehuda Ben Ezra**  
VP Comptroller

.....  
November 19, 2009  
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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions (except per share data)				
Revenues:					
Sales and services	2,937	3,198	970	1,130	4,204
Group's share of earnings (losses) of associates, net	54	14	26	(1)	4
Gain from sale of investments and assets	137	28	33	19	33
Other income	190	13	147	3	24
Financial income	193	136	54	11	114
	<u>3,511</u>	<u>3,389</u>	<u>1,230</u>	<u>1,162</u>	<u>4,379</u>
Expenses:					
Cost of sales and services	1,989	2,066	643	720	2,748
Selling and marketing expenses	309	310	105	111	422
General and administrative expenses	281	223	88	81	319
Loss from sale and impairment of investments and assets	34	44	31	7	68
Other expenses	36	26	19	8	54
Financial expenses	274	436	126	133	477
	<u>2,923</u>	<u>3,105</u>	<u>1,012</u>	<u>1,060</u>	<u>4,088</u>
Income before taxes on income	588	284	218	102	291
Taxes on income (tax benefit)	73	151	(8)	50	158
Net income	<u>515</u>	<u>133</u>	<u>226</u>	<u>52</u>	<u>133</u>
Attributable to:					
Equity holders of the Company	405	23	194	10	26
Minority interests	110	110	32	42	107
	<u>515</u>	<u>133</u>	<u>226</u>	<u>52</u>	<u>133</u>
Net earnings per share attributable to equity holders of the Company (in NIS):					
Basic earnings	<u>2.57</u>	<u>0.15</u>	<u>1.24</u>	<u>0.06</u>	<u>0.16</u>
Diluted earnings	<u>2.47</u>	<u>0.12</u>	<u>1.23</u>	<u>0.06</u>	<u>0.14</u>

\*) Reclassified, see Note 2c.

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
Net income	515	133	226	52	133
Other comprehensive income (loss):					
Net change in fair value of available-for-sale financial assets net of taxes	-	4	(8)	3	4
Actuarial gains (losses) in respect of defined benefit plans net of taxes	3	(1)	1	(1)	(14)
Revaluation reserve from business combinations, net	467	33	467	-	33
Transfer to revaluation reserve for impairment of assets	(7)	-	(7)	-	-
Foreign currency translation adjustments of foreign operations, net	(4)	(26)	(28)	3	16
Group's share of net other comprehensive income (loss) of associates	2	(60)	(9)	5	(26)
Other comprehensive income (loss), net	461	(50)	416	10	13
Total comprehensive income	976	83	642	62	146
Attributable to:					
Equity holders of the Company	816	(17)	574	20	31
Minority interests	160	100	68	42	115
	976	83	642	62	146

\*) Reclassified, see Note 2c.

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Company						
	Share capital	Share premium	Capital reserves (*)	Retained earnings	Total	Minority interests	Total
				(accumulated deficit)			
NIS in millions							
Balance as of January 1, 2009 (audited)	1,257	574	7	(150)	1,688	726	2,414
Total comprehensive income	-	-	408	408	816	160	976
Transfer to retained earnings for revaluation reserve arising on achievement of control	-	-	(4)	4	-	-	-
Issue of shares and options to minority in subsidiary	-	-	(5)	5	-	32	32
Expiration of stock options in subsidiary	-	-	-	-	-	(14)	(14)
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	9	9
Cost of share-based payment	-	-	-	-	-	15	15
Dividend paid to minority	-	-	-	-	-	(66)	(66)
Acquisition of minority interest in subsidiary	-	-	-	-	-	(15)	(15)
Acquisition of newly consolidated companies	-	-	-	-	-	984	984
Balance as of September 30, 2009 (unaudited)	<u>1,257</u>	<u>574</u>	<u>406</u>	<u>267</u>	<u>2,504</u>	<u>1,831</u>	<u>4,335</u>
Balance as of January 1, 2008 (audited)	1,257	574	(2)	(50)	1,779	572	2,351
Total comprehensive income (loss)	-	-	(38)	21	(17)	100	83
Transfer to retained earnings for revaluation reserve arising on achievement of control	-	-	(6)	6	-	-	-
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	2	2
Cost of share-based payment	-	-	-	-	-	13	13
Dividend paid	-	-	-	(126)	(126)	-	(126)
Dividend paid to minority	-	-	-	-	-	(123)	(123)
Acquisition of minority interests in subsidiary	-	-	-	-	-	(36)	(36)
Acquisition of newly consolidated companies	-	-	-	4	4	223	227
Balance as of September 30, 2008 (unaudited)	<u>1,257</u>	<u>574</u>	<u>(46)</u>	<u>(145)</u>	<u>1,640</u>	<u>751</u>	<u>2,391</u>
Balance as of July 1, 2009 (unaudited)	1,257	574	31	68	1,930	774	2,704
Total comprehensive income	-	-	380	194	574	68	642
Issue to minority in subsidiary	-	-	(5)	5	-	32	32
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	7	7
Cost of share-based payment	-	-	-	-	-	5	5
Dividend paid to minority	-	-	-	-	-	(39)	(39)
Acquisition of newly consolidated companies	-	-	-	-	-	984	984
Balance as of September 30, 2009 (unaudited)	<u>1,257</u>	<u>574</u>	<u>406</u>	<u>267</u>	<u>2,504</u>	<u>1,831</u>	<u>4,335</u>

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Company						
	Share capital	Share premium	Capital reserves (*)	Retained earnings	Total	Minority interests	Total
				(accumulated deficit)			
NIS in millions							
Balance as of July 1, 2008 (audited)	1,257	574	(55)	(30)	1,746	770	2,516
Total comprehensive income	-	-	12	8	20	42	62
Transfer to retained earnings for revaluation reserve arising on achievement of control	-	-	(3)	3	-	-	-
Acquisition of minority interests in subsidiary	-	-	-	-	-	(10)	(10)
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	2	2
Cost of share-based payment	-	-	-	-	-	9	9
Dividend paid	-	-	-	(126)	(126)	-	(126)
Dividend paid to minority	-	-	-	-	-	(62)	(62)
Balance as of September 30, 2008 (unaudited)	<u>1,257</u>	<u>574</u>	<u>(46)</u>	<u>(145)</u>	<u>1,640</u>	<u>751</u>	<u>2,391</u>
Balance as of January 1, 2008 (audited)	1,257	574	(2)	(50)	1,779	572	2,351
Total comprehensive income	-	-	19	12	31	115	146
Transfer to retained earnings for revaluation reserve arising on achievement of control	-	-	(10)	10	-	-	-
Issue to minority in subsidiary	-	-	-	-	-	9	9
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	2	2
Cost of share-based payment	-	-	-	-	-	17	17
Dividend paid	-	-	-	(126)	(126)	-	(126)
Dividend paid to minority	-	-	-	-	-	(176)	(176)
Acquisition of minority interests in subsidiary	-	-	-	-	-	(36)	(36)
Acquisition of newly consolidated companies	-	-	-	4	4	223	227
Balance as of December 31, 2008 (audited)	<u>1,257</u>	<u>574</u>	<u>7</u>	<u>(150)</u>	<u>1,688</u>	<u>726</u>	<u>2,414</u>

\*) Composition of capital reserves:

	September 30,		December 31,
	2009	2008	2008
	Unaudited		Audited
NIS in millions			
Transactions with controlling shareholders	6	6	6
Revaluation of investment arising on achievement of control	429	33	29
Cash flow hedge	1	(6)	(2)
Available-for-sale financial assets	14	13	15
Foreign currency translation adjustments of investees	(44)	(92)	(41)
	<u>406</u>	<u>(46)</u>	<u>7</u>

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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
<u>Cash flows from operating activities:</u>					
Net income	515	133	226	52	133
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to profit and loss items:					
Depreciation of fixed assets and intangible assets	217	144	76	51	206
Loss (gain) from sale and impairment of investments and assets, net	(103)	16	(2)	(12)	35
Taxes on income (tax benefit)	73	151	(8)	50	158
Transfer to the statement of income for negative goodwill	(144)	-	(144)	-	-
Income tax paid, net	(91)	(208)	(15)	(59)	(273)
Financial expenses, net	81	300	72	122	363
Groups' share of losses (earnings) of associates, net	(54)	(14)	(26)	1	(4)
Proceeds from disposal of financial derivatives	3	12	2	12	2
Change in fair value of investment property, net	(1)	-	-	1	3
Dividend received from associates	30	9	7	8	12
Cost of share-based payment	15	13	5	9	17
Change in liabilities in respect of employee benefits, net	(16)	(6)	(9)	4	(2)
	10	417	(42)	187	517
Changes in asset and liability items:					
Decrease (increase) in trade receivables and other receivables	(14)	(50)	19	56	12
Decrease (increase) in inventory and inventory of real estate properties, net	184	(134)	28	(118)	(164)
Increase (decrease) in trade payables and other payables	(118)	(8)	(25)	(54)	20
Total adjustments to reconcile net income to net cash provided by operating activities	62	225	(20)	71	385
Net cash provided by operating activities	577	358	206	123	518
<u>Cash flows from investing activities:</u>					
Purchase of fixed assets and intangible assets	(169)	(273)	(34)	(74)	(392)
Purchase of investment property	(2)	(11)	(1)	-	(11)
Acquisition of newly consolidated subsidiaries net of acquired cash (a)	(192)	9	(177)	-	(23)
Acquisition of associates and available-for-sale financial assets	(16)	(50)	(70)	(11)	(69)
Payment on account of equity investment	(68)	-	-	-	-
Proceeds from sale of fixed assets	46	26	14	11	33
Proceeds from sale of investments in associates and available-for-sale financial assets	17	73	9	2	74
Acquisition of minority interests in subsidiaries	(15)	(36)	-	(10)	(36)
Proceeds from sale (acquisition) of held-for-trading securities, net	4	(127)	(81)	(15)	(161)
Grant of long-term loans and other credit	(9)	(9)	(9)	(9)	(19)
Collection of long-term loans and other credit	-	14	-	-	31
Interest received	18	34	7	14	45
Bank deposits, net	1	54	58	103	60
Net cash provided by (used in) investing activities	(385)	(296)	(284)	11	(468)

\*) Reclassified, see Note 2c.

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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
<u>Cash flows from financing activities:</u>					
Issue of capital to minority in subsidiaries	89	23	58	23	50
Dividend paid to Company shareholders	-	(126)	-	(126)	(126)
Proceeds from (payment for) sale of financial derivatives, net	6	21	2	(4)	47
Interest paid	(169)	(164)	(9)	(14)	(179)
Dividend paid to minority	(66)	(123)	(39)	(62)	(176)
Issue of stock options to minority in subsidiary	-	-	-	-	5
Receipt of long-term loans and other liabilities	371	369	58	49	460
Repayment of long-term loans and other liabilities	(471)	(156)	(89)	(51)	(218)
Short-term credit from banks and others, net	(27)	9	(28)	(45)	87
Net cash used in financing activities	(267)	(147)	(47)	(230)	(50)
Effect of exchange rate fluctuations on cash balances, net	10	(95)	(12)	(8)	(33)
Decrease in cash and cash equivalents	(65)	(180)	(137)	(104)	(33)
Cash and cash equivalents at the beginning of the period	1,299	1,332	1,371	1,256	1,332
Cash and cash equivalents at the end of the period **)	1,234	1,152	1,234	1,152	1,299
**) Presented in the balance sheet as follows:					
Overdrafts (in credit from banks)	(1)	-	(1)	-	(7)
Cash and cash equivalents	1,235	1,152	1,235	1,152	1,306
	1,234	1,152	1,234	1,152	1,299
(a) <u>Acquisition of newly consolidated subsidiaries net of cash acquired:</u>					
The subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents)	46	(44)	45	-	(42)
Fixed assets and prepaid operating lease expenses	(1,272)	(236)	(1,272)	-	(236)
Intangible assets	(512)	(179)	(496)	-	(213)
Other non-current assets	(114)	(48)	(114)	-	(48)
Long-term liabilities	833	89	833	-	89
Revaluation reserve from business combinations	467	-	467	-	-
Transfer to the statement of income for negative goodwill	144	-	144	-	-
Minority interests	984	175	984	-	175
Investment in associates	(768)	252	(768)	-	252
	(192)	9	(177)	-	(23)

\*) Reclassified, see Note 2c.

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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
(b) <u>Significant non-cash transactions:</u>					
Acquisition of fixed assets on credit	4	6	4	6	6
Transfer of inventories to fixed assets	10	9	3	4	9
Share proceeds from sale of available-for-sale financial assets	-	-	-	-	16
Exchange of option granted under technology acquisition agreement in installments	23	-	-	-	-
Investments in associate	16	-	16	-	-
Asset swap	8	-	-	-	-

\*) Reclassified, see Note 2c.

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

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

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

*IAS 1 (Revised) - Presentation of Financial Statements:*

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***IFRS 2 (Revised) - Share-based Payment:*

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

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

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

*IAS 20 (Revised) - Government Grants:*

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

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

*IAS 28 (Revised) - Investment in Associates:*

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

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

*IAS 38 (Revised) - Intangible Assets:*

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***IFRIC 13 - Customer Loyalty Programmes:*

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

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

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

*IFRIC 15 - Agreements for the Construction of Real Estate:*

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***IAS 23 (Revised) - Borrowing Costs:*

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

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

*IAS 40 (Revised) - Investment Property:*

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

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

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

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

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

*IAS 19 (Revised) - Employee Benefits:*

The Company early adopted IAS 19 (Revised) as from the financial statements as of December 31, 2008. Pursuant to IAS 19 (Revised), a group of other long-term benefits will also comprise employee benefits to which entitlement is established in a short period of time but whose expected utilization date occurs over one year from the period qualifying for the benefits, such as cumulative benefits in respect of vacation pay and sick leave that are expected to be utilized in the period exceeding one year subsequent to balance sheet date. Accordingly, these benefits are now required to be recognized in the financial statements based on an actuarial calculation given future salaries and as discounted to present value. Following a re-examination of the interpretation to the amendment in the first quarter of 2009, the accounting treatment was remodified to the previous accounting treatment, namely, the liability for these benefits is measured in nominal values. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

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

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

## 3. IFRIC 18 - Transfers of Assets from Customers:

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

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

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

## 4. IAS 17 - Leases:

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

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

5. IAS 36 - Impairment of Assets:

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

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

6. IFRS 9 - Financial Instruments:

On November 12, 2009, the IASB issued the first phase of IFRS 9, "Financial Instruments". IFRS 9 will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The first phase of the IFRS 9 project ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to the Standard, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

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

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

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

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in profit or loss or in other comprehensive income, in accordance with the election of the accounting policy on an instrument-by-instrument basis. This election is final and irrevocable. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss.

When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

IFRS 9 will be effective starting January 1, 2013. Early adoption of the first phase is permitted. For entities that choose to early adopt the Standard in 2009 and 2010, the date of initial adoption may be any date in the reporting period, but not before November 12, 2009 (the date of issuance of the Standard). Comparative information should be restated. However, the provisions of IFRS 9 allow certain transition relief for entities electing to early adopt the Standard.

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

- c. The Company reclassified various asset and liability items in the balance sheet as of September 30, 2008 as well as income and expense items in the statement of income for the nine and three months then ended in immaterial amounts.
- d. Following are data regarding the Israeli CPI and the exchange rates of the U.S. dollar:

<b>As of</b>	<b>Israeli CPI Points *)</b>	<b>Known Israeli CPI Points *)</b>	<b>Exchange rate of U.S. \$ 1 NIS</b>
September 30, 2009	122.0	122.3	3.758
September 30, 2008	118.6	118.6	3.421
December 31, 2008	118.0	118.1	3.802
<b>Change during the period</b>	<b>%</b>	<b>%</b>	<b>%</b>
Nine months ended:			
September 30, 2009	3.4	3.6	(1.2)
September 30, 2008	4.4	5.0	(11.1)
Three months ended:			
September 30, 2009	1.3	2.4	(4.1)
September 30, 2008	2.0	2.1	2.1
Year ended December 31, 2008	3.8	4.5	(1.1)

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD**

## a. Principal changes in investments during the reported period:

## 1. Hanson (Israel) Ltd.:

On July 29, 2009, Mashav Initiating and Development Ltd. ("Mashav"), which is 75% owned, signed an agreement to purchase 100% of the shares of Hanson (Israel) Ltd. ("Hanson") in consideration of NIS 450 million (with the addition of any net cash balances, if and as far as there are any, in Hanson's treasury upon closing) ("the consideration" and "the agreement", respectively).

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

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

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

There is no certainty that the transaction will be consummated.

## 2. Taavura Holdings Ltd. ("Taavura"):

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

## 3. Hadera Paper Ltd. ("Hadera Paper"):

a) On August 19, 2009, the Company's audit committee and Board approved the Company's engagement in an agreement with Discount Investments Ltd. ("Discount Investments"), a subsidiary of IDB Development Corporation Ltd. (the Company's parent company), whereby the Company will acquire from Discount Investments the latter's entire stake in Hadera Paper shares (representing 21.45% of Hadera Paper's share capital) in consideration of NIS 246 million. This amount is about 42% higher than the value of said holdings according to the equity attributable to the equity holders of Hadera Paper at September 30, 2009 and about 6% higher than the market value of these holdings at that date.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The price for Discount Investments' stake in Hadera Paper was determined in negotiations held between the parties following a valuation performed by an independent appraiser ("the appraiser") hired by the Company and Discount Investments ("the valuation"). According to the valuation, the fair value of Discount Investments' holdings in Hadera Paper at June 30, 2009 was estimated between NIS 223 million and NIS 268 million and on that basis the parties negotiated the payment to be made to the sellers for their holdings in Hadera Paper, NIS 246 million, as an approximate average range of said valuation which, at June 30, 2009, was 47% higher than the value of said holdings according to the equity attributable to the equity holders of Hadera Paper and about 30% higher than the market value of these holdings. The Company also received an independent opinion for the fairness and reasonableness of the determined consideration.

On September 24, 2009, the approvals of the general meetings of the Company and Discounts Investments were obtained and on September 30, 2009, the transaction was consummated. After closing, the Company's stake in Hadera Paper's share capital increased to about 59%.

Due to the increase in the holding rate in Hadera Paper, starting September 30, 2009, Hadera Paper's financial statements were consolidated for the first time in the Company's financial statements (the investment in Hadera Paper was presented until September 30, 2009 at equity). After closing, the Company hired the appraiser for evaluating the fair value of Hadera Paper's identifiable assets and liabilities, including intangible assets, and for estimating the remaining useful life of these assets ("the allocation project"). The allocation project is attached to these financial statements.

The adjustment of the value of the identifiable assets and liabilities (net) which refer to the Company's stake of Hadera Paper before the holdings of Discount Investments were acquired and which reached NIS 312 million, was recognized immediately in the statement of comprehensive income whereas the amount by which the value of the identifiable assets and liabilities (net) which refer to the Company's additional stake of Hadera Paper as a result of the above acquisition exceeds the amount paid for the acquisition of Hadera Paper's shares (negative goodwill) which reached NIS 113 million, was recognized in other income in the statement of income (see c below).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- b) The fair value of Hadera Paper's identifiable assets and liabilities and their carrying amount as at the date of acquisition:

	<b>Previous carrying value</b>	<b>Fair value adjustments</b>	<b>Fair value recognized on acquisition</b>
	<b>NIS in millions</b>		
Current assets	702	-	702
Intangible assets	28	26	54
Fixed assets, prepaid expenses and operating lease rights	1,109	160	1,269
Investment in associates	338	765	1,103
Other non-current assets	34	-	34
Current liabilities	(605)	(12)	(617)
Non-current liabilities:			
Deferred taxes	(61)	(28)	(89)
Other non-current liabilities	(709)	(28)	(737)
Identifiable assets, net	<u>836</u>	<u>883</u>	<u>1,719</u>
Consideration paid in cash			246
Cash and cash equivalents in the acquired company on the date of sale			<u>22</u>
Cash derived from the acquisition, net			<u>224</u>

Fair value adjustments relating to Hadera Paper's tangible and intangible assets and liabilities are as follows:

	<b>NIS in millions</b>	<b>Depreciation period</b>
Fixed assets	62	25 years (mainly 10 years)
Operating lease rights	98	50 years (mainly 25 years)
Customer relations	16	10 years (mainly 6 years)
Brands and trade names	10	6 years
Associates *)	765	
Debentures	(40)	10 years (mainly 5 years)
Deferred taxes	(28)	simultaneously with the items to which the deferred taxes relate
	<u>883</u>	

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

- \*) Fair value adjustments relating to tangible and intangible assets and liabilities of Hadera Paper's associates are as follows:

	<b>NIS in millions</b>	<b>Depreciation period</b>
Fixed assets and operating lease rights	21	25 years (mainly 11 years)
Customer relations	278	10 years (mainly 5 years)
Brands and trade names	48	10 years
Order backlog	2	yearly
Inventory	12	quarterly
Goodwill	480	not depreciated
Deferred taxes		simultaneously with the items to which the deferred taxes relate
	<u>(76)</u>	
	<u><u>765</u></u>	

Had the business combination taken place at the beginning of the year, the net income for the nine and three months ended September 30, 2009 would have amounted to NIS 440 million and NIS 142 million, respectively (subject to the pro forma assumptions outlined in d below) and the total consolidated revenues for these periods would have amounted to NIS 4,093 million and NIS 1,347 million, respectively.

- c) Of the value that was determined for the transaction, it derives that the economic value of the activity in the wrapping paper segment is allegedly lower by approximately NIS 478 million from its carrying amount in Hadera Paper's books.

According to IAS 36, in determining the need to recognize an impairment of the value of the wrapping paper as a cash-generating unit, Hadera Paper examined its value in use based on discounted cash flows. Thereafter, Hadera Paper assessed the fair value of items of fixed assets which comprise the wrapping paper segment by reference to appraiser projects. In this context it was noted that the fair value of fixed assets less costs to sell is higher than its carrying amount and, in accordance with IAS 36, no impairment loss is required to be recognized on fixed assets.

Further, in the above valuation, the value of Hadera Paper's subsidiary, Carmel Containers Ltd. ("Carmel") was attributed on the basis of a transaction to acquire Carmel's shares by Hadera Paper in September 2008, less controlling premium. This value of lower by NIS 48 million from the net value of Carmel's assets in Hadera Paper's books on September 30, 2009. Consequently, Hadera Paper examined by an independent outside appraiser the need to record an impairment loss for the cash-generating unit, Carmel, on the basis of its value in use by reference to discounted cash flows expected to the Company. It was noted that the fair value of Carmel is higher than its value in Hadera Paper's books and no impairment loss is required to be recognized.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

In the allocation project, the appraiser related to the results of examinations prepared by Hadera Paper and the accredited appraisers and to their implications as of September 30, 2009 and he determined that the new information has no effect on the value of Hadera Paper as determined in his valuation. The fairness appraiser of the transaction consideration reached the same conclusion. It is indicated that in the appraiser's valuation and according to the allocation project he prepared, the value of the assets deriving from his valuation is based on discounted cash flows and most of the assets are largely affected from the market trend of decline in prices of wrapping paper which is evident in the Israeli market since 2008, whereas in the appraisers' valuations the value of most of the assets is based on realizable market value (stated in Euro) in the view of a market participant who is an international player and the events in the local market have no effect on most of the assets.

d) Pro forma information:

Condensed pro forma statements of income prepared in order to retroactively reflect the operating results of Hadera Paper and its investees assuming that the business combination of Hadera Paper, as above, occurred already on January 1, 2008, is shown below.

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

- 1) The data of the pro forma statements of income was based on combination of the data of the Company's consolidated statements of income and the data of Hadera Papers' statements of income as prepared for periods before the actual date of the business combination. The results of the Company's investment in Hadera Paper, at equity, as previously recognized, were deducted from the data in the Company's statements of income.
- 2) Minority interests of the results of Hadera Paper was determined on the basis of its holdings in Hadera Paper after the date of the business combination (about 41%).
- 3) The acquisition consideration was attributed to the net identifiable assets and liabilities of Hadera Paper, as discussed in b above. The consolidated pro forma statements of income include the amortization of the acquisition consideration attributable to the assets and liabilities as above starting January 1, 2008 (based on the rates outlined above). The gain arising on the business combination of Hadera Paper, as discussed in a above, was not included in the operating results of the pro forma reporting periods.
- 4) Significant revenues from intragroup transactions were eliminated.
- 5) The financial income in the relevant periods was reduced by the amount of the average interest that the Company received on NIS deposits in banks for the amount of cash used to acquire the shares (NIS 246 million).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Condensed consolidated pro forma statements of income is as follows:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited				Audited
	NIS in millions (except per share data)				
Revenues:					
Sales and services	3,592	3,645	1,190	1,301	4,877
Company's share of earnings (losses) of associates, net	75	10	37	(4)	4
Gain from sale of investments and assets	137	28	33	19	33
Other income	94	22	33	13	29
Financial income	195	137	54	13	116
	<u>4,093</u>	<u>3,842</u>	<u>1,347</u>	<u>1,342</u>	<u>5,059</u>
Expenses:					
Cost of sales and services	2,556	2,422	833	864	3,297
Selling and marketing expenses	362	338	123	123	467
General and administrative expenses	325	263	101	100	375
Loss from sale and impairment of investment and assets	34	44	31	7	68
Other expenses	21	26	4	8	54
Financial expenses	283	448	128	136	492
	<u>3,581</u>	<u>3,541</u>	<u>1,220</u>	<u>1,238</u>	<u>4,753</u>
Income before taxes on income	512	301	127	104	306
Taxes on income (tax benefit)	72	156	(15)	49	163
Net income	<u>440</u>	<u>145</u>	<u>142</u>	<u>55</u>	<u>143</u>
Attributable to:					
Equity holders of the Company	301	18	90	8	18
Minority interests	139	127	52	47	125
	<u>440</u>	<u>145</u>	<u>142</u>	<u>55</u>	<u>143</u>
Net earnings per share attributable to equity holders of the Company (in NIS):					
Basic earnings	<u>1.91</u>	<u>0.11</u>	<u>0.57</u>	<u>0.05</u>	<u>0.11</u>
Diluted earnings	<u>1.81</u>	<u>0.08</u>	<u>0.56</u>	<u>0.05</u>	<u>0.09</u>

As stated in Note 2b(1) above, the Company is examining the effect of the early adoption of IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, including the possible implications of the early adoption on this transaction, if applied.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

## 4. Golf &amp; Co. Group Ltd. ("Golf"):

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

In the third quarter of 2009, Golf's options (series 2) were exercised. Consequently, the Company derived a gain of NIS 10 million and the Group's stake in Golf decreased to 70%.

As stated in Note 2b(1) above, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the NIS 24 million gain will be carried directly to the Company's equity.

## 5. Clal Biotechnology Industries Ltd. ("CBI"):

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

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

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

In June 2009, Teva transferred to Andromeda another amount of \$ 5.5 million thereby completing its investment in respect of the exercise of the option. Teva also extended to Andromeda a loan of \$ 3.5 million used to repay a portion of the shareholders' loan previously provided by CBI to Andromeda. Due to the additional decrease in CBI's stake following said investment and in view of the fair value of the loan extended by Teva to Andromeda, the Company derived a gain (attributable to the Company's shareholders) of approximately NIS 27 million which was carried to the statement of income in the second quarter of 2009 to the line item gain from sale of investments and assets. Following the additional investment, CBI's stake in Andromeda decreased to 90%. As stated in Note 2b(1) above, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the NIS 35 million gains will be carried directly to the Company's equity.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

CBI hired an independent outside appraiser to quarterly evaluate the series of options exchanged between Andromeda, CBI and Teva, as stated in Note 11h(4)(a) to the annual financial statements. These options include Call options of Teva for Andromeda shares and Put options of shares of Andromeda and of CBI to Teva as well as a Call option granted by Andromeda to Develogen (as for the cancellation of this option, see 2). As a result of updating the value of the series of options in the reported period, CBI recorded a gain attributable to the equity holders of the Company of NIS 29 million (of which NIS 25 million in the first quarter of 2009).

- 2) In March 2009, the parties signed an amendment to the agreement between Andromeda and Develogen as described in Note 11h(4)(a)(1) to the annual financial statements. According to the amendment, the rate of royalties payable to Develogen Israel was decreased to 3.5% of Andromeda's (net) product sales up to a cumulative amount of €200 million and 1.5% of net sales in excess of a cumulative amount of €200 million. Furthermore, Andromeda's investment options in Develogen Israel were cancelled and the amounts that Andromeda might pay Develogen Israel, if and as far as all the milestones are met, may reach some €18 million, of which approximately €1.2 million was paid upon the completion of Teva's investment in Andromeda in respect of the exercise of the option as stated in 1) above.
- 3) In September 2009, CBI informed Andromeda of its intention to invest \$ 5.6 million in Andromeda, out of a total of \$ 7.5 million which CBI undertook to invest in Andromeda pursuant to the Teva's investment agreement in Andromeda from February 2008, and this if institutional investors do not make investment in Andromeda in said amount. The remaining investment of \$ 1.9 million will be invested in Andromeda by Teva according to said agreement.

Close to the date of the announcement, of the overall investment amount, CBI invested in Andromeda \$ 1 million.

b) Investment in D-Pharm Ltd. ("D-Pharm"):

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

- 2) In July 2009, CBI, other D-Pharm shareholders and third parties undertook to invest a total of approximately NIS 57 million in D-Pharm (of which approximately NIS 38 million by CBI) in return for shares and options to be allocated to them by D-Pharm ("the early raising"). The performance of the early raising is contingent on completing the issuance of D-Pharm's securities to the public by September 15, 2009 (see 3 below).
- 3) In August 2009, the issuance of D-Pharm's securities to the public according to a prospectus was completed. As a result, D-Pharm became a public company whose shares are listed on the Tel-Aviv Stock Exchange. In the context of the issuance, D-Pharm raised NIS 28 million (before expenses) in exchange for about 1.7 million Ordinary shares and about 1.7 million stock options that are exercisable into Ordinary shares of D-Pharm.

Upon completion of the public offering, the early raising, as stated in 2 above, was also completed and, simultaneously, loans that CBI and a third party gave D-Pharm, as stated in 1 above, were converted.

Following the completion of the public issuance, the early raising and the loan conversion, CBI's stake in D-Pharm's issued capital is about 47% and about 52% of D-Pharm's capital on a fully diluted basis (taking into account potential shares of D-Pharm on exercise of options that are exercisable immediately). Accordingly, starting that date, D-Pharm's financial statements are consolidated in CBI's financial statements (the investment in D-Pharm was presented until that date at equity).

- 4) CBI hired an independent appraiser for evaluating the fair value of D-Pharm's assets and liabilities, including intangible assets, at the date of initial consolidation and for estimating the remaining useful life of these assets.

In the context of the above business combination, the value of D-Pharm's assets and liabilities were adjusted to their fair value as determined in the valuation of the outside appraiser, see also 5 below.

The adjustment of the value of the assets and liabilities (net) which refer to CBI's stake of D-Pharm before the issuance and the capital raising, as above, which reached NIS 155 million (the share attributable to equity holders of the Company - NIS 104 million) was recognized immediately in the statement of comprehensive income whereas the amount by which the value of the assets and liabilities (net) which refer to CBI's additional stake of D-Pharm as a result of the issuance and capital raising exceeds the amount invested in D-Pharm by CBI (negative goodwill) which reached NIS 31 million was recognized in income in the statement of income (the share attributable to equity holders of the Company - NIS 21 million).

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

- 5) The acquired assets (tangible and intangible) and liabilities were recognized at fair value upon acquisition. In this context, CBI recognized identifiable intangible assets - mainly research and development assets of several drugs which D-Pharm develops but whose development is incomplete. These assets are not systematically amortized (until the development of the drugs is complete) and are tested for potential impairment at each year-end.

The assets and liabilities at the date of initial consolidation are as follows:

	<b>Fair value</b>	<b>Carrying amount in the acquiree's books</b>
	<b>NIS in millions</b>	
Current assets	91	91
Intangible assets (mainly in-process research and development assets)	438	1
Other non-current assets	4	4
Current liabilities	(10)	(10)
Non-current liabilities:		
Deferred taxes	(18)	-
Other long-term liabilities	(10)	(2)
Net assets acquired	<u>495</u>	<u>84</u>
Consideration paid in cash upon the business combination	(38)	
Cash and cash equivalents in the consolidated company	<u>89</u>	
Cash flows from the business combination	<u>51</u>	

The consolidated statements of income for the nine and three months ended September 30, 2009 include immaterial data of the acquiree.

Had the business combination taken place at the beginning of the year, the net income for the nine and three months ended September 30, 2009 would have amounted to NIS 485 million and NIS 192 million, respectively and the total consolidated revenues for these periods would have amounted to NIS 3,497 million and NIS 1,195 million, respectively (less the effect of income from negative goodwill on net income and revenues).

As stated in Note 2b(1) above, the Company is examining the effect of the early adoption of IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, including the possible implications of the early adoption on this transaction, if applied.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

## c) Private placement to Migdal Insurance group ("Migdal"):

In September 2009, CBI allocated to several entities of the Migdal Insurance group 4,444,444 Ordinary shares and 2,857,143 non-marketable stock options to purchase 2,857,143 Ordinary shares of CBI for the total consideration of NIS 40 million (NIS 36 million of the proceeds was allocated to the shares and the balance to the stock options).

The stock options are exercisable from the date of issuance to September 30, 2010 such that each stock option is exercisable into one Ordinary share of CBI, subject to adjustments, in consideration of the exercise increment of NIS 14 in cash, subject to adjustments.

Migdal was conferred full ratchet right if the Company effects private placement to third parties in a price that is less than the allocation price to Migdal and preemptive right in relation to the allocated shares. These rights are in force until December 31, 2010.

As a result of the above issuance, the Company's stake in CBI's share capital decreased from about 67% to about 63.6% and the Company recorded a gain of NIS 8 million in the third quarter of 2009.

As stated in Note 2b(1) above, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the NIS 8 million gain will be carried directly to the Company's equity.

## 6. Netvision Ltd. ("Netvision"):

On August 19, 2009, the Company's audit committee and Board approved the Company's engagement with Discount Investments in an agreement with Elron Electronic Industries Ltd. ("Elron"), which is 49% held by Discount Investments, whereby the Company and Discount Investments will acquire from Elron its entire stake in Netvision shares for NIS 49.6 per Netvision share such that the Company will acquire from Elron 6.69% of Netvision's share capital (6.19% on a fully diluted basis) in consideration of NIS 100 million and Discount Investments will acquire from Elron 8.55% of Netvision's share capital (7.92% on a fully diluted basis) in consideration of NIS 128 million ("the agreement"). It should be noted that the acquisition of Elron's stake in Netvision shares by the Company and Discount Investments (together, "the buyers") is divided between the buyers based on each buyer's interest in the shares of Netvision prior to the agreement.

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

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

The above transaction was subject to several prerequisites and it was consummated after the balance sheet date, see Note 6a below.

## 7. Arcadian Networks Inc. ("Arcadian"):

In the third quarter of 2009, the Company recorded in its accounts NIS 16 million of impairment loss of its investment in Arcadian of which an amount of NIS 2 million was carried to capital reserve from revaluation of available-for-sale financial assets and NIS 14 million was carried to the statement of income in the line item loss from sale and impairment of investments and assets. The above allowance is based on a valuation of the fair value of the investment in Arcadian that the Company obtained from an independent outside appraiser.

## b. Investments in listed companies:

	Equity investment as presented in the balance sheet at	Market value at	
		September 30, 2009	August 17, 2009
		NIS in millions	
<i>Associates:</i>			
Netvision Ltd.	295	288	320
Beit Shemesh Engine Holdings (1997) Ltd.	37	14	14
ECTel Ltd.	13	11	13
Nova Measuring Instruments Ltd.	17	41	48
BioCancell Inc.	4	12	12
<i>Subsidiaries:</i>			
Golf	194	543	568
Fundtech Ltd.	317	383	406
CBI	311	603	714
Hadera Paper	995	639	816
Maman - Cargo Terminals and Handling Ltd.	103	79	83
D-Pharm	196	177	181

## c. Shelf prospectus:

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

## d. Decrease in tax rates:

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

The effect of the abovementioned change on the balances of deferred taxes close to the amendment has been an increase in net income attributable to equity holders of the Company of NIS 49 million, of which NIS 50 million was carried to the line item taxes on income and NIS 11 million to Group's share of earnings of associates (less NIS 12 million which is attributable to minority interest).

**NOTE 4:- OPERATING SEGMENTS**

## a. General:

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

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

1. Cement - the principal company in this segment is Neshar Israeli Cement Enterprises Ltd. ("Neshar"). Neshar is wholly owned by Mashav Initiating and Development Ltd. ("Mashav") (75% owned). The presented segment data are the data of Mashav on a consolidated basis less the data of Taavura.
2. Taavura Holdings Ltd. ("Taavura") (37.5% owned) - Taavura provides transport, infrastructure and logistic services, imports and markets trucks, buses, heavy equipment and cranes and imports and markets automobiles in Europe as well as provides other services.
3. Hadera Paper Ltd. ("Hadera Paper") (59% owned) - Hadera Paper is mainly engaged in manufacturing and marketing packaging paper and cardboards, collecting and recycling paper, manufacturing and marketing writing and printing paper, home paper products, disposable diapers and home and kitchen cleaning products. See also Note 3a(3).

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4:- OPERATING SEGMENTS (Cont.)**

4. Golf & Co. Group Ltd. ("Golf") (70% owned) - Golf is mainly engaged in marketing and selling clothing for various settings.
5. KBA Townbuilders Group Ltd. ("KBA") (53% owned) - KBA deals in holding land reserves and upgrading and selling them.
6. Fundtech Ltd. ("Fundtech") (58% owned) - Fundtech develops, markets and supports software programs that are used by financial institutions.
7. Clal Biotechnology Industries Ltd. ("CBI"), (64% owned) - CBI operates in the biotechnological field by investing in life science companies and ventures that are mostly in research and clinical trial stages.
8. Netvision Ltd. ("Netvision") (24% owned) - Netvision, a main supplier of communication services in Israel, is mainly engaged in providing internet connectivity services, international telephony services and managed services (equipment and communication network endpoint and domestic telephony services).

The segment results detailed below include the various items of profit and loss of the segment companies less the other segment and represent the Company's share of the net income (loss) of the segment companies.

The segment expenses include the amortization of excess costs by the Company in respect of its investment in the segment companies.

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4:- OPERATING SEGMENTS (Cont.)

## b. Information of operating segments:

## 1. Segment results:

	<u>Cement</u>	<u>Taavura</u>	<u>Hadera Paper</u>	<u>Golf</u>	<u>KBA</u>	<u>Fundtech Unaudited</u>	<u>CBI</u>	<u>Netvision</u>	<u>Other</u>	<u>Adjusted amount *)</u>	<u>Total</u>
	<u>NIS in millions</u>										
<i>Nine months ended September 30, 2009:</i>											
Segment revenues:											
Revenues from external factors	1,243	1,595	853	523	29	340	149	937	1,802	(3,960)	3,511
Inter-segment revenues	-	31	-	-	-	-	-	-	2	(33)	-
	<u>1,243</u>	<u>1,626</u>	<u>853</u>	<u>523</u>	<u>29</u>	<u>340</u>	<u>149</u>	<u>937</u>	<u>1,804</u>	<u>(3,993)</u>	<u>3,511</u>
Net income (loss)	<u>268</u>	<u>115</u>	<u>171</u>	<u>89</u>	<u>16</u>	<u>(8)</u>	<u>82</u>	<u>63</u>	<u>(8)</u>	<u>(273)</u>	<u>515</u>
Attributable to:											
Equity holders of the Company	205	37	135	72	8	(6)	63	4	(3)	(110)	405
Others	63	78	36	17	8	(2)	19	59	(5)	(163)	110
	<u>268</u>	<u>115</u>	<u>171</u>	<u>89</u>	<u>16</u>	<u>(8)</u>	<u>82</u>	<u>63</u>	<u>(8)</u>	<u>(273)</u>	<u>515</u>
<i>Nine months ended September 30, 2008:</i>											
Segment revenues:											
Revenues from external factors	1,242	1,740	502	537	241	322	22	928	1,898	(4,043)	3,389
Inter-segment revenues	-	44	-	-	-	-	-	-	10	(54)	-
	<u>1,242</u>	<u>1,784</u>	<u>502</u>	<u>537</u>	<u>241</u>	<u>322</u>	<u>22</u>	<u>928</u>	<u>1,908</u>	<u>(4,097)</u>	<u>3,389</u>
Net income (loss)	<u>170</u>	<u>80</u>	<u>59</u>	<u>78</u>	<u>139</u>	<u>(7)</u>	<u>(80)</u>	<u>59</u>	<u>(32)</u>	<u>(333)</u>	<u>133</u>
Attributable to:											
Equity holders of the Company	127	25	23	59	71	(5)	(50)	2	(12)	(217)	23
Others	43	55	36	19	68	(2)	(30)	57	(20)	(116)	110
	<u>170</u>	<u>80</u>	<u>59</u>	<u>78</u>	<u>139</u>	<u>(7)</u>	<u>(80)</u>	<u>59</u>	<u>(32)</u>	<u>(333)</u>	<u>133</u>

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4:- OPERATING SEGMENTS (Cont.)

	Cement	Taavura	Hadera Paper	Golf	KBA	Fundtech Unaudited	CBI	Netvision	Other	Adjusted amount *)	Total
	NIS in millions										
<i>Three months ended September 30, 2009:</i>											
Segment revenues:											
Revenues from external factors	400	510	362	181	12	118	45	321	656	(1,375)	1,230
Inter-segment revenues	-	13	-	-	-	-	-	-	-	(13)	-
	<u>400</u>	<u>523</u>	<u>362</u>	<u>181</u>	<u>12</u>	<u>118</u>	<u>45</u>	<u>321</u>	<u>656</u>	<u>(1,388)</u>	<u>1,230</u>
Net income (loss)	<u>115</u>	<u>30</u>	<u>137</u>	<u>24</u>	<u>7</u>	<u>4</u>	<u>23</u>	<u>20</u>	<u>(27)</u>	<u>(107)</u>	<u>226</u>
Attributable to:											
Equity holders of the Company	90	9	122	21	4	2	21	2	(11)	(66)	194
Others	25	21	15	3	3	2	2	18	(16)	(41)	32
	<u>115</u>	<u>30</u>	<u>137</u>	<u>24</u>	<u>7</u>	<u>4</u>	<u>23</u>	<u>20</u>	<u>(27)</u>	<u>(107)</u>	<u>226</u>
<i>Three months ended September 30, 2008:</i>											
Segment revenues:											
Revenues from external factors	399	620	197	181	87	109	17	320	670	(1,438)	1,162
Inter-segment revenues	-	17	-	-	-	-	-	-	6	(23)	-
	<u>399</u>	<u>637</u>	<u>197</u>	<u>181</u>	<u>87</u>	<u>109</u>	<u>17</u>	<u>320</u>	<u>676</u>	<u>(1,461)</u>	<u>1,162</u>
Net income (loss)	<u>49</u>	<u>23</u>	<u>20</u>	<u>25</u>	<u>50</u>	<u>(9)</u>	<u>(11)</u>	<u>23</u>	<u>(12)</u>	<u>(106)</u>	<u>52</u>
Attributable to:											
Equity holders of the Company	37	6	8	20	25	(4)	(7)	1	(14)	(62)	10
Others	12	17	12	5	25	(5)	(4)	22	2	(44)	42
	<u>49</u>	<u>23</u>	<u>20</u>	<u>25</u>	<u>50</u>	<u>(9)</u>	<u>(11)</u>	<u>23</u>	<u>(12)</u>	<u>(106)</u>	<u>52</u>

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4:- OPERATING SEGMENTS (Cont.)

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

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4:- OPERATING SEGMENTS (Cont.)

## 2. Segment assets:

	<u>Cement</u>	<u>Taavura</u>	<u>Hadera Paper</u>	<u>Golf</u>	<u>KBA</u>	<u>Fundtech</u>	<u>CBI</u>	<u>Netvision</u>	<u>Other</u>	<u>Adjusted amount *)</u>	<u>Total</u>
	NIS in millions										
<i>At September 30, 2009 (unaudited):</i>											
Segment assets:											
Assets	2,971	2,497	3,114	415	69	687	960	1,730	2,668	(3,953)	11,158
Inter-segment assets	-	11	-	-	-	-	-	-	1	(12)	-
<u>Total assets</u>	<u>2,971</u>	<u>2,508</u>	<u>3,114</u>	<u>415</u>	<u>69</u>	<u>687</u>	<u>960</u>	<u>1,730</u>	<u>2,669</u>	<u>(3,965)</u>	<u>11,158</u>
<i>At September 30, 2008 (unaudited):</i>											
Segment assets:											
Assets	2,813	2,399	2,042	413	145	616	393	1,634	2,838	(5,523)	7,770
Inter-segment assets	-	9	-	-	-	-	-	-	3	(12)	-
<u>Total assets</u>	<u>2,813</u>	<u>2,408</u>	<u>2,042</u>	<u>413</u>	<u>145</u>	<u>616</u>	<u>393</u>	<u>1,634</u>	<u>2,841</u>	<u>(5,535)</u>	<u>7,770</u>
<i>At December 31, 2008 (audited):</i>											
Segment assets:											
Assets	2,815	2,650	2,063	380	77	735	426	1,682	2,827	(5,640)	8,015
Inter-segment assets	-	6	-	-	-	-	-	-	3	(9)	-
<u>Total assets</u>	<u>2,815</u>	<u>2,656</u>	<u>2,063</u>	<u>380</u>	<u>77</u>	<u>735</u>	<u>426</u>	<u>1,682</u>	<u>2,830</u>	<u>(5,649)</u>	<u>8,015</u>

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- CONTINGENT LIABILITIES**

a. General:

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

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

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

1. Netvision Ltd. ("Netvision"):

- a) In furtherance to the matter discussed in Note 24b(d)(2)(f) to the annual financial statements regarding two separate claims (Aviad Seren Management Ltd. and Universal Mobile Ltd.), attached with a motion to approve each of these two claims as a class action, which were filed in July 2008 alleging that Netvision had acted illegally in unilaterally changing the engagement price with customers by fixing the U.S. dollar-NIS exchange rate in invoices issued starting December 31, 2007 at NIS 4.1 per dollar. Following the consent of the parties to strike Universal Mobile's request, on July 9, 2009, this request was stricken. The plaintiff estimates the damage caused to the group at between NIS 7 and NIS 76 million. Another pre-trial hearing in the case of the second claim (Aviad Seren) was scheduled for December 13, 2009.

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

- b) On June 18, 2009, a claim and a motion to approve the claim as a class action were filed against Netvision with the Central Region District Court. The claim alleges, among other things, that Netvision had misled the plaintiff and made it a false presentation whereby under the upgrading of its internet speed and for a certain fee, it will receive Norton's antivirus program whereas in practice, it was asked to pay for this product a higher price. The petitioner is arguing that Netvision failed to provide proper disclosure and misled it by offering the petitioner a "bargain" price whereas the price of the program in the free market is considerably lower than the price charged from the petitioner. The petitioner is assessing the overall damage sustained to the group at approximately NIS 7 million.

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- CONTINGENT LIABILITIES (Cont.)**

- c) In furtherance to the matter discussed in Note 24b(d)(2)(g) to the annual financial statements regarding a class action filed on February 24, 2009 against Netvision which the plaintiff estimates at approximately NIS 27 million, in which the petitioner alleges, among other things, that Netvision had misled him in subscribing him to a certain special price per call minute which was lower than the rate actually charged for the call minute. The parties are holding discussions with an attempt to reach a settlement. A pre-trial hearing was scheduled for November 29, 2009.

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

- d) In August 2009, three plaintiffs filed a motion to approve a claim as a class action against Netvision and Partner with the Central Region District Court. The claim alleges, among other things, that Netvision had misled the plaintiffs to the point of extortion and abuse of consumers when it unilaterally reduced (so it is argued) the number of call minutes when calling fixed and mobile targets in Israel in a certain series of prepaid calling cards.

The petitioners are arguing that there is a justification to approve the motion as a class action against the respondent in the name of the group which will comprise all customers who acquired calling cards of this series and for whom the argued deduction was made. The causes of the claim are: misleading, extortion and abuse of consumers pursuant to the Law for Consumer Protection, 1981, mala fides, unjust enrichment and breach of statutory duties.

The specifically sought financial remedy against Netvision amounts to NIS 58. The petitioners argue total damage sustained to the group at approximately NIS 28 million, based on the petitioners' assumption of the number of calling cards bought by the group members and based on the petitioners' assumption of the average amount of damage. It is expected that Netvision will give its response to the motion in December 2009.

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

- e) In furtherance to the matter discussed in Note 24b(d)(1) to the annual financial statements regarding a claim and motion to approve the claim as a class action that were filed with the Tel-Aviv District Court against Netvision, Nana 10 Ltd. and additional companies operating electronic commerce websites and various suppliers arguing that the defendants inappropriately interfered in the auctions over the internet. In October 2009, a proof hearing in the issue of the motion to approve the claim as a class action took place at Court. Based on the assessment of its legal counsel, Netvision believes that considering the stage of proceeding, the chances that the claim will be approved as a class action do not exceed its chances of not being approved as a class action and, therefore, Netvision did not include any provision in its financial statements for this claim.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- CONTINGENT LIABILITIES (Cont.)**

- f) In furtherance to the matter discussed in Note 24b(d)(2)(d) to the annual financial statements regarding a claim and motion to approve the claim as a class action against Netvision and 012 Smile Communications Ltd. ("the respondents") whose issue is rounding up calls made by Netvision in calling cards, allegedly, to minutes and not to seconds, in which the petitioner argues total damage sustained to the group at approximately NIS 158 million, on November 3, 2009, the petitioner filed a request to abandon the action. In the context of the request and without admitting the petitioner's arguments, the respondents agreed that in calling cards where the duration of call is measured at a unified time unit to all targets, the time unit will be indicated clearly on the face of the card; it was also agreed that a clarification of the method of measuring the duration of the call will be added to the respondents' websites.

On November 10, 2009, the Central Region District Court accepted a decision to approve the abandonment of the claim and motion to approve the claim as a class action against Netvision and 012 Smile Communications Ltd. by the petitioner. The above decision had no effect on Netvision's financial statements.

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

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

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

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

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

On August 3, 2009, the parties filed a motion with the Court to approve the compromise. On September 2, 2009, the Court instructed to publish announcements of the compromise. On October 2, 2009, two residents of Dimona filed an objection to the compromise. The hearing was scheduled for January 10, 2010.

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 6:- SUBSEQUENT EVENTS**

## a. Netvision:

On October 29, 2009, the transaction to acquire Netvision's shares from Elron, as discussed in Note 3a(6) above, was consummated. As a result, the Company's stake in Netvision increased to about 31%, Discount Investment's stake in Netvision increased to about 39.7% and Elron no longer holds Netvision's shares. The Company acquired Netvision's shares at total cost of NIS 100 million. As a result of the acquisition, the Company derived excess of cost of NIS 29 million which, at this stage, according to the Company's estimates will be mainly attributed to customer relations and goodwill.

## b. ECTel Ltd. ("ECTel")

On October 22, 2009, ECTel signed a merger agreement, whereby cVidya Networks Ltd. will acquire ECTel from all its shareholders for the total cash consideration of approximately \$ 21 million (less transaction costs). According to the terms of the agreement, at closing, all ECTel's shareholders will receive approximately \$ 1.26 per each share they hold. The expected consideration to the Company from the sale of its stake in ECTel is estimated at approximately \$ 3.5 million. As a result, the Company recorded a loss of NIS 11 million in its financial statements for the third quarter of 2009.

The consummation of the transaction is subject to the fulfillment of prerequisites. There is no certainty that the transaction will be consummated.

## c. Dividends:

On November 19, 2009, the Company's Board decided to distribute a cash dividend of NIS 120 million, representing NIS 0.762052 per NIS 1 par value of shares. The dividend will be distributed on December 13, 2009. The record date was determined to be November 29, 2009 and the ex-date was determined to be November 30, 2009.

**APPENDIX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****DETAILS OF INVESTMENTS (\*) OF THE COMPANY AND ITS WHOLLY OWNED  
HEADQUARTER COMPANIES AS OF SEPTEMBER 30, 2009**

<u>Listed companies</u>	<u>Ownership</u> %	<u>Amount of investment</u> NIS in millions
Hadera Paper Ltd.	59%	995
Golf & Co. Group Ltd.	70%	194
Netvision Ltd.	24%	295
Fundtech Ltd.	58%	317
Clal Biotechnology Industries Ltd.	64%	313
Beit Shemesh Engines Holdings (1997) Ltd.	36%	37
Nova Measuring Instruments Ltd.	21%	17
ECTel Ltd.	17%	13
		<hr/> 2,181 <hr/>
<b><u>Private companies</u></b>		
Mashav Initiating and Development Ltd.	75%	984
Kitan Textile Industries Ltd.	100%	69
Arcadian Networks Inc.	12%	54
Aternity Inc.	12%	6
Jaf-Ora Ltd.	30%	125
F.B.R. Infinity Ventures (Israel) L.P.	39%	90
KBA Townbuilders Group Ltd.	53%	15
Cargal Ltd.	26%	79
Clal Venture Capital Fund - Limited Partnership	67%	26
Millennium Materials Technologies Fund II L.P.	13%	11
Med 1 IC 1 (1999) Ltd.	31%	10
Infinity I - China Fund (Israel 2), L.P.	9%	39
Clal Energy Limited Partnership	100%	20
FBR Infinity II China	22%	6
Other private companies		10
		<hr/> 1,544 <hr/>
Less investments in subsidiaries		3,725
With the addition of investments of subsidiaries		<hr/> (2,933) <hr/>
Investments in associates and available-for-sale financial assets		<hr/> <hr/> 1,983 <hr/> <hr/>

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