

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2000

1. Description of the Company

Clal Industries and Investments Ltd., (“CII” or “the Company”) is an investment company, whose principal holdings are in the manufacturing and high-technology industries. As a result of the merger of Clal (Israel) with and in consolidation with IDB Development Corporation Ltd., the Company is currently held directly by IDB Development Corporation Ltd.

CII is principally engaged in the acquisition, establishment and development of companies in various industries and takes an active role in the management of its investee companies, in particular when it is the largest investor.

The CII group of companies are engaged in a variety of segments, which primarily include: high-technology and electronics, biotechnology, communications, management of venture capital funds, infrastructure, paper and textile.

New investments are in four principal fields of specialization: biotechnology, software, semi-conductor equipment and communication technologies.

On March 13, 2001, the Company’s Board of Directors took a decision to examine the possibility of implementing a merger between the Company and CLAL Electronic Industries (CEI), by means of a share swap, so that subsequent to the merger, the Company will hold all of CEI’s shares. In addition, the Board of Directors took a decision to authorize the Company’s management to formulate a merger proposal and enter into negotiations with CEI regarding the conditions of the merger to be presented to the Board of Directors for discussion and approval. It was further decided to appoint a joint appraiser who will determine the number of shares the Company will allocate to the shareholders’ of CEI (“the consideration”), if the decision to merge is taken, and the appointment of an additional economic appraiser to provide an opinion as to the reasonability of the consideration from the Company’s perspective.

The Company’s results are largely influenced by capital gains and depreciations, and therefore large fluctuations may occur in Company’s results at various reporting periods. In addition, the Company’s results are influenced by those of its investee companies.

The Company’s activities are implemented through subsidiaries (companies which the Group holds 50% or more directly or indirectly of the rights therein), associated companies (companies in which the Group has a material influence and which are included in the financial statements on an equity basis) and through other companies.

The Group’s activities are also influenced by a wide range of external factors, see paragraph 8 below.

The Company views its contribution and assistance to the community as a vital component of its visionary business plan.

Following are the main activities of the sectors of the Group:

Hi-tech and electronics - included in this sector, amongst others, are Clal Electronic Industries Ltd. (CEI) (rate of ownership - 59%), Fundtech Ltd. ("Fundtech") (rate of ownership - 27%), Orsus Solutions Limited ("Orsus") (rate of ownership - 17%). The main companies held by CEI are ECI Telecom Ltd. (ECI) (in which CEI holds 14% ownership) Scitex Corporation Ltd. ("Scitex") (in which CEI holds 22% ownership), Applied Radiation - Jordan Valley Ltd. (in which CEI holds 57% ownership) and Nova Measuring Instruments Ltd. (in which CEI holds 21% ownership).

Biotechnology - included in this sector, amongst others, is D-Pharm Ltd. (ownership rate - 30%), Compugen Ltd. (ownership rate - 12%), Immune Designed Molecules S.A. (ownership rate - 5.6%) and Oralscan Laboratories Inc. (ownership rate - 10%).

Venture capital funds - included in this sector are venture capital funds which are managed partly by the Clal Industries Group, partly which are managed jointly with companies of the Group and partly under the management of others.

The funds in the sector include amongst others: Clal Capital Venture (rate of ownership - 67%), Infinity Israel (rate of ownership - 31%), Millenium and Millenium II (rate of ownership - 50% and 17%, respectively), Harvest (rate of ownership - 20%) and Carmel (rate of ownership - 6%).

Cement - Neshor Israeli Cement Enterprises Ltd. ("Neshor") is the principal company in this sector. Neshor is wholly owned by Mashav Initiating and Development Ltd. ("Mashav"), a holding company which is wholly owned and controlled by the Group.

Paper and Cardboard - this sector includes the American Israeli Paper Mills Ltd. ("AIPM") (rate of ownership - 33%) and Cargal Ltd. ("Cargal") (rate of ownership - 27%).

Textile - this sector includes Kitan Consolidated Ltd. ("Kitan") (rate of ownership - 100%) and Polgat Ltd. ("Polgat") (rate of ownership - 67%).

Communications - Clalcom Ltd. ("Clalcom") (rate of ownership - 73%) indirectly holds, amongst others, Barak I.T.C. (1995) - The International Telecommunication Services Corp. ("Barak") - 44% owned by Med-I - Subterranean Communication Tools ("Med-I") - 15% ownership and Mediterranean Nautilus Ltd. - 15% ownership.

Other - includes amongst others, K.B.A. Townbuilders Group Ltd. (rate of ownership - 53%), which is engaged in construction and real estate in Ashdod, Jaf-Ora Ltd. (rate of ownership - 28%), which is engaged in the production and marketing of soft drinks, Taavura Cement Containers Ltd. (rate of ownership - 50%), which operates mainly in the area of transport and Mivtach Shamir Holdings Ltd. (rate of ownership - 15%), which operates as a holding company in the area of technology and real estate.

2. *Financial Position*

Total assets in the consolidated balance sheet of the Group as of December 31, 2000, amounted to NIS 7,056 million, as compared with NIS 6,243 million at the end of 1999.

The Companies of the Group are engaged in comprehensive multinational activities. The majority of the companies engage in hedging transactions with respect to their foreign currency balances and some have attained equilibrium as between income and expenditure in the same currency. Nonetheless, the Group is unable to avoid completely the effects of fluctuations in foreign currency exchange rates. See also paragraph 9 below.

The majority of the Group companies prepare their financial statements adjusted to changes in the Consumer Price Index. Certain investee companies adjust their financial statements to changes in the rate of exchange of the U.S. dollar.

3. *Results of Operations*

A. *Net income*

The Company's net loss for 2000 amounted to NIS 88 million as compared with earnings of NIS 428 million in the corresponding period and NIS 297 million in 1998.

In the wake of decreases in value which are not temporary in nature, the Company and CEI wrote down the cost of some of their permanent investments during the four quarter. The writedowns related mainly to the investments in Orckit, Tioga, VocalTec, Viryanet and BVR. The effect of these writedowns on the Company's income amounted to NIS 217 million (see Notes 8 and 9 to the financial statements).

The loss for the year was affected by net negative non-recurring factors totaling NIS 150 million, deriving mainly from the above writedowns which were partly offset by the gain of NIS 52 million arising on the sale of Med-1 shares (in the previous year, there were net positive non-recurring factors totaling NIS 237 million).

The profit for the year excluding the effect of non-recurring factors, amounted to NIS 62 million, as compared to a profit of NIS 191 million in the previous year.

The decrease in the profit for the year excluding the effect of non-recurring factors, is due mainly to the high financing costs incurred during the year in the wake of the increase in leverage and from the transition to loss-making in ECI, Scitex and Polgat. The decrease was partly offset by the increase in the Company's share of the income of Mashav following the purchase of 50% of the shares of that company at the beginning of the year.

The Company's loss for the fourth quarter amounted to NIS 287 million, as compared to a profit of NIS 63 million in the corresponding quarter of the previous year. Net income for the quarter incorporates net negative non-recurring factors amounting to NIS 258 million, as compared to net positive non-recurring factors in the corresponding quarter of the previous year amounting to NIS 9 million.

The transition from a profit excluding non-recurring factors in the fourth quarter of the previous year to a loss in the fourth quarter of the year under review, is due principally to the high financing costs as well as to the transition to loss-making in ECI, Scitex and Polgat, which in turn was offset by the increased profitability of Kitan and the Venture Capital Funds.

The loss per NIS 1 share for 2000 was NIS 0.63, as compared to earnings of NIS 3.05 in the previous year and NIS 2.12 in 1998.

In consequence of the completion of the merger of the Scitex pre-printing division and Cario Ltd., Scitex incorporated income of approximately NIS 547 million in its financial statements, which income was based on the fair value of Cario's listed shares. The above income is stated after charging the costs of research and development in process and adjusting for the effects of taxation.

The financial statements of Scitex are prepared in accordance with U.S. accounting principles.

The Company has presented its investment in Scitex on the equity basis, which in turn is based on the financial statements of Scitex after adjustment with respect to accounting principles generally accepted in Israel. As a result of the adjustment of the income of Scitex with respect to accounting principles generally accepted in Israel, Scitex has contributed to the Company's results a loss of NIS 19 million for the year and a loss of NIS 8 million for the fourth quarter.

B. Shareholders' Equity

As of December 31, 2000, the Company's shareholders' equity amounted to NIS 3,003 million, as compared to NIS 3,130 million in the previous year. The principal changes in shareholders' equity during the course of the year derived from the loss of NIS 88 million, and a decrease of NIS 40 million in the amount of the adjustments stemming from the translation of financial statements of investee companies (dollar reserve).

C. The following is selected data from the financial statements of the principal investee companies (in millions of shekels - rounded):

| | Sales (*) | | | | Net Income (Loss)(**) | | | |
|------------|--------------------------------|-------|--|------|--------------------------------|-------|--|------|
| | For the year ended December 31 | | For the three months ended December 31 | | For the year ended December 31 | | For the three months ended December 31 | |
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| CEI | 86 | 73 | 26 | 23 | (371) | 630 | (368) | 40 |
| Mashav | 1,697 | 1,752 | 371 | 435 | 143 | 194 | 17 | 57 |
| Kitan | 752 | 720 | 211 | 192 | 9 | 22 | (10) | 8 |
| AIPM (***) | 688 | 1,537 | 128 | 416 | 78 | 65 | 13 | 20 |
| Barak | 528 | 426 | 152 | 120 | (110) | (163) | (21) | (36) |
| Polgat | 486 | 567 | 113 | 104 | (5) | 39 | (8) | 1 |
| Fundtech | 191 | 127 | 49 | 31 | 8 | (7) | - | (7) |

(*) Relates to sales only and does not include CII's equity in the earnings of associated companies and other income, net.

(**) Net income (loss) includes the effect of non-recurring transactions.

(***) 1999 includes those companies whose consolidation was terminated in 2000.

D. The following is a review of the activities of the principal investee companies (*):

- **Nesher:** There was a reduction in the sale of cement (13%) in comparison to the corresponding period last year as a result of the decrease (10%) in volume sold and the continued erosion of prices (3%). Net income of companies in the cement sector amounted to NIS 123 million as compared to NIS 181 million last year.

As a result of the security situation in the region, a sharp decline in the demand for cement in Israel and the administrated territories occurred, commencing in the fourth quarter.

* Refers to the financial statements of ECI, Scitex and Fundtech which were, publically published in accordance generally accepted accounting principles in the U.S. (GAAP).

In the fourth quarter, Nesher sales decreased by approximately 34% as compared to sales for the corresponding period last year. Nesher's net income in the fourth quarter amounted to NIS 12 million as compared to NIS 56 million last year.

In the fourth quarter, the old production line of cement clinker was shut down and a decision was taken to examine the possibility of establishing a new production line when suitable conditions arise. This will result in a change in the Company's operating costs and the number of personnel. Income for the year and for the quarter includes expenses with respect to the shut down of the production line in the amount of NIS 10 million.

- **ECI:** ECI reported a loss from continuing operations for 2000 of NIS 44 million before adjustment for non-recurring expenses, compared to a profit of NIS 774 million for the previous year. The loss after adjustment for non-recurring expenses amounted to NIS 369 million, as compared to a profit of NIS 414 million in the previous year. Sales for the year amounted to NIS 4,729 million, an increase of 5% as compared to the previous year.

During the fourth quarter, ECI incurred a loss of NIS 243 million before adjustment for net non-recurring expenses, as compared to earnings of NIS 173 million for the corresponding quarter of the previous year. The loss is computed after accounting for the writing-off of inventories, a decrease in the value of assets, and reorganization expenses totaling NIS 228 million. Sales for the fourth quarter amounted to NIS 1,238 million, as compared to NIS 1,162 million for the corresponding quarter of the previous year.

Subsequent to balance sheet date, the commercial operations of the principal divisions of ECI were transferred to five subsidiaries. ECI has noted in its financial statements that no certainty exists with respect to the implementation of its divestiture program in the form in which it was originally conceived.

- **Scitex:** As a result of the reorganization which was completed with the merger of the pre-printing operations with Creo, Scitex became an investment company which specializes in printing. Income for the year amounted to NIS 306 million including gain from the merger of NIS 547 million. Losses incurred in the fourth quarter amounted to NIS 65 million.
- **AIPM:** Net income for the year was NIS 78 million, compared with NIS 65 million in the previous year. Net income in the last quarter was NIS 13 million, compared with NIS 20 million in the corresponding period of the previous year. Net income includes non-recurring income in the amount of NIS 18 million, mainly as a result of a decrease in the holding in Hogla Kimberly (previous year NIS 6 million).

The increase in operating income is a result of an increase in the volume of activity, improvement in selling prices and increased efficiency, which were set off in part in respect of a significant increase in raw material prices. The volume of sales in the fourth quarter of 2000 was low compared with the corresponding period of the previous year and with the previous quarters of 2000, as a result of a slowdown in economic activity in the market related to the military situation and competition in various sectors of activity.

- **Kitan:** Net income for the year amounted to NIS 9 million, as compared to NIS 22 million in the previous year. In the fourth quarter, Kitan incurred a loss of NIS 10 million as compared to a gain of NIS 9 million last year. The fourth quarter included a provision for expenses relating to closures and the transfer of manufacturing departments in the amount of NIS 20 million (in the fourth quarter of last year a non-recurring gain of NIS 6 million). Operating income for the year increased from NIS 21 to NIS 40 million. The improvement in results stemmed mainly from an improvement in retail activities and the results of the efficiency measures carried out by Kitan Industries.
- **Polgat:** Last year the company reported net income of NIS 39 million compared to a loss of NIS 5 million this year of which NIS 9 million was lost in the fourth quarter. In the reported period, gross income decreased from 23.7% last year to 15.9% this year. This decrease in gross income results mainly from a decrease in sales, primarily due to the erosion of sales prices by an average of 11.5% and the revaluation of the dollar against the British pound. In the reported period, Polgat accelerated the transfer of production operations outside of Israel as part of the measures taken to significantly decrease production costs during 2001. Subsequent to the report date, Polgat Textiles merged with the Turkish Group - Guney Sanayi.
- **Barak:** The increase in revenues continued reaching NIS 528 million for the year, as compared to NIS 426 million last year. Barak completed the fourth quarter with revenues of NIS 152 million as compared to NIS 120 million last year. Barak completed the year with a gross profit of NIS 71 million as compared to a gross loss of NIS 6 million last year. Barak's operating loss decreased to NIS 52 million this year as compared to NIS 22 million last year. In the fourth quarter, the Company recorded operating income of NIS 5 million for the first time as compared to a loss of NIS 25 million last year.
- **Fundtech:** Reported income of NIS 191 million, an increase of 49% as compared with the previous year. In the fourth quarter of this year income increased by 59% and amounted to NIS 49 million. Income net of amortization of goodwill in the fourth quarter amounted to NIS 2 million (last year a loss of NIS 4 million) and in the reporting year an income of NIS 19 million (an income of NIS 9 million last year).

4. Principle Changes in Investments and in Investee Companies

- 4.1 In January 2000, the Company acquired all of Koor Industries' holdings in Mashav in consideration for NIS 900 million. On completion of the transaction, the Company's holding in Mashav increased to 100%. The acquisition was financed by the increase in the Company's external sources of financing.
- 4.2 In June 2000, Clalcom sold 8.2% of Med-1's capital to Telecom - Italy in consideration for NIS 78 million. The net gain from the transaction amounted to NIS 52 million. The balance of Clalcom's holding in Med-1, as well as in Med Nautilus (the Company which coordinates the international cable activities of Med-1's shareholders') is 15%.
- 4.3 In April 2000, Scitex completed an agreement for the merger of its pre-printing operations with those of the Canadian Company, Creo. On completion of the transaction, Scitex holds 26% of the share capital of Creo. With respect to the effect of the merger on the Company's results - see paragraph 3A.

During the period, Clal Electronics Industries Ltd. ("CEI") acquired additional shares in Scitex at a cost of NIS 62 million, subsequent to which CEI's holdings in Scitex increased to 22.2%.

- 4.4 In March 2000, CEI invested NIS 51 million in debentures convertible into shares of Orckit. As a result of the split of Orckit, the debentures are convertible into shares of Orckit and Tioga Technologies Ltd.
- 4.5 In March 2000, the Company invested NIS 30 million in the shares of Orsus. As of December 31, the Company's holdings in Orsus increased to 16.7%.
- 4.6 In March 2000, CEI converted ECI's convertible debentures into shares. As of December 31, 2000, CEI's holding in ECI increased to 13.8%.
- 4.7 In March 2000, the Company sold part of its holdings in BVRT in consideration for NIS 11 million. The Company recorded a gain of NIS 8 million.
- 4.8 In April 2000, Nova raised NIS 199 million in an initial public offering in the U.S. As a result of the issuance, CEI's holdings in Nova decreased to 19.8% generating capital in the amount of NIS 21 million.
- 4.9 In April 2000, the Company made a commitment to invest \$10 million in the Carmel Fund, of which, as at reported date, the Company's actual investment is \$2 million.
- 4.10 In April 2000, the Company sold all its remaining holdings in Sunfrost in consideration for NIS 16 million. As a result of the sale, the Company recorded a gain of NIS 9 million.

4.11 In June 1998, CBI received an additional consideration with respect to the sale of PRI shares as a result of which, the Company recorded a gain of NIS 7 million.

4.12 From May through August, a wholly owned subsidiary acquired 7.8% of Med Yavne and Med Ashdod's petroleum and gas license for an aggregate amount of NIS 20 million. This investment was implemented concurrently with the acquisition by other partners of 7.2% of Mediterranean Energy.

At a partners meeting held October 2000, regarding the Med Yavne license, the drilling contractor submitted a report from a consulting firm which estimated the aggregate quantity of gas (IN PLACE) in the "Nir" reservoir to be 274 million cubic feet.

4.13 In July, CBI invested an additional NIS 21 million in Compugen. In August, Compugen raised NIS 206 million in the framework of an initial public offering in the U.S. Subsequent to the offering, CIB's holdings in Compugen reached 12.1%.

4.14 During the year CEI invested NIS 43 million in shares of VocalTec Communications Ltd. thereby increasing its holdings to 4.9% in VocalTec.

4.15 In the reported period, the Group invested NIS 57 million in ViryaNet Ltd., subsequent to which the Group's holding therein reached 15%.

4.16 In October, CIB invested 37 million in Immune Designed Molecules S.A. (IDM) in France, in consideration for 5.6% of IDM. In addition, options were granted to CIB for an additional investment of 2.1 million Euro.

4.17 In October, CEI invested NIS 40 million in Saifun Semi Conductors Ltd. in consideration for 2.5% in Saifun.

4.18 The Company is conducting negotiations for the sale of 50% of its holdings in Mashav to an international strategic partner in the construction and cement industry.

Due to the security situation in the region, at this stage the parties are not proceeding with their negotiations.

4.19 In November 2000, CBI invested approximately \$2 million in OralScan Laboratories Inc. ("OralScan"). In January 2001, CBI invested an additional \$10.5 million in OralScan. The rate of CBI's holding in OralScan is 9.6%.

4.20 In the reported period, the Company undertook together with CEI (in equal parts) to invest in capital venture funds - Infinity II - (\$25 - \$30 million), Star (\$5 million), Genesis II (\$6 million) and Hyperion (\$5 million). In addition the Company invested, together with CEI (in equal parts) \$5 million in Celletra Ltd.

5. *Liquidity*

The Company has a deficit in working capital - consolidated NIS 1,015 million and company - NIS 984 million. As at balance sheet date, short-term liquid assets in the consolidated report amounted to NIS 147 million and are included under the items short-term investments and cash and cash equivalents. The quick ratio of companies of the Group - consolidated is 0.27 (1999 - 0.81). Total cash from operating activities on a consolidated basis, amounted to NIS 311 million in addition to the proceeds from disposal of assets and investments in the amount of NIS 221 million and changes in short-term credit from banks, net in the amount of NIS 439 million. The principle use of cash, in proceeds and credit was made for the purpose of acquiring companies in the amount of NIS 1,779 million and the acquisition of fixed and other assets in the amount of NIS 209 million.

6. *Sources of financing*

In accordance with the Company's strategy of increasing its leverage, the Company mainly increased its short-term loans. As a result thereof, the Company's deficit in working capital reached NIS 984 million (NIS 1,015 million - consolidated).

From the sources side, there was a decrease in the Company's shareholders' equity (4%) and a decrease in minority interest (21%) which together were a source of financing of 53% of the Group's assets. As at December 31, 2000, Company's shareholders' equity amounted to NIS 3,003 million as compared to NIS 3,130 million last year. Minority interest amounted to NIS 707 million (1998 - NIS 898 million).

Long-term external sources of financing of the Group amounted to NIS 672 million at the end of 2000 (1999 - NIS 408 million) of which approximately 72% are repayable within the next two years. In the reporting year long-term loans and liabilities were received by the Group as well as changes in short-term credit from banks, net in the amount of approximately NIS 798 million as compared to a repayment of approximately NIS 236 million.

7. *Events Subsequent to balance sheet date*

Subsequent to December 31, 2000, there was a decrease in stock exchange value of several of the Company's marketable investments as detailed in Note 8 and 9 to the financial statements.

8. *Influence of external factors*

The Groups activities are influenced by numerous external factors which for practical reasons are not all quantified. The principal external factors are as follows:

The situation of the global capital market, mainly the stock exchange, which may influence the value and results of the Group companies.

In the present situation of the capital market, sharp fluctuations may take place in respect of market prices of listed companies.

The security situation in Israel and in the Palestinian Authority has a negative effect on the activity of some of the Group Companies, from both an operational and a demand standpoint.

The recent slow down in the domestic market has an effect on the activities of companies which operate in this market.

The governmental monetary policy and the resulting changes in market prices such as depreciation policies, may have a material effect on the Group's profitability.

The regulations of the Supervisor of Banks in Israel include limitations according to which the liability of a group of borrowers to a banking entity in Israel will not exceed a certain proportion of the capital of that banking entity. In light of the fact that the Company and its subsidiaries which are deemed to be part of a "group of borrowers" of IDB Holdings Ltd, the said regulations may affect the possibility of some banking entities in Israel to increase significantly the volume of their credit to the Company.

The activity of certain group companies is affected by seasonability, in respect of dependence upon agriculture and in respect of seasons of the year (clothing).

Certain group companies transferred part of their manufacturing activity to the Palestinian Authority and to neighboring countries. In this regard, the political and security-related relationships with the Palestinian Authority and with these countries may affect the activity of these companies.

The Tender Law, 1992, affects the income of group companies which sell to entities covered by the Law.

Difficulties and changes in the construction sector may affect the group's activity, mainly the activity of Neshet which is affected by the level of activity in this sector including public and infrastructure construction.

Import exposure policy affects the activity of group companies (mainly in the textile sector).

Certain companies (mainly in the building materials sector) are exposed to various requirements of the supervisory authorities in respect of maintenance of the quality of the environment.

The group companies are exposed to fluctuations in raw material prices worldwide.

Budgets of government entities, in general, and of security-related entities, specifically, affect the activity of certain group companies and changes in these budgets may have a significant effect on the activity in these sectors.

A significant increase in minimum wages may affect the group's profitability.

Strikes and industrial unrest in Israel's ports results in delays in arrival of raw materials and impairs exports.

Nesher is defined as a monopoly and therefore selling prices of cement are subject to controls fixed by the Supervisor of Pricing. Nesher reached an agreement with government entities regarding the composition of cement prices until July 1, 2002. The agreement fixes a decrease in real prices at a total rate of 13.7% during the period beginning July 1, 1998. This decrease was enabled due to a process of increased efficiency which was enabled by establishment of dry production lines and forwarding part of the improvement to the consumer. During this period, Nesher is not subject to controls in accordance with the previous method which was replaced by the agreement and which included real price erosion at the rate of 8.2% in the period of the agreement.

9. Quality Reporting Regarding Exposure to Market Risks and their Management

The following report relates to the Company and its wholly owned subsidiaries, except companies specified in paragraph 9.6 ("the entity"):

9.1 The individual responsible for financial risk management in the entity is Mr Gonen Biber, deputy finance manager ("the manger").

9.2 Market risks¹ to which the entity is exposed

The entity is exposed to a variety of market risks in its regular course of business, mainly changes in prices of marketable securities which may affect the value of the entity's holdings in its investee companies and the difference between liabilities and assets linked to foreign currency or to the consumer price index.

¹ As defined in regulations issued by the Securities Authority on November 29, 1999.

9.3 The entity's policy regarding management of market risks

The entity holds a large volume of marketable securities of investee companies. In general, the Company does not hedge its investments in marketable securities, inter alia because of the large volume of its investments in such securities, the distribution of the investments in Israel and abroad, distribution of investments in various securities, and statutory limitations on acquisition of derivatives.

The entity acts to reconcile, insofar as possible, the linkage bases of its financial assets and its liabilities and the average life of its financial assets to the average life of its liabilities.

9.4 *Supervisory and realization policy*

The board of directors will approve from time to time, usually once each year, the volume of hedging transactions which may be implemented and the authority of the managers of the entity. According to a decision of the board of directors, management of the entity is entitled:

- (a) To implement, from time to time, according to its consideration, hedging transactions including forward transactions, options and other financial instrument (in respect of principal or interest) in order to reduce or to set off completely exposures which are incurred from time to time as a result of the financial structure of the entity.
- (b) To retain, from time to time, excess liabilities or assets linked to foreign currency in a volume which will not exceed US\$ 250 million.

The transactions are implemented according to the manager, who is entitled to implement hedging transactions for purposes of implementation of the entity's policy. The manager will report to the general manager on a current basis on implementation of the hedging transactions. Management is required to report to the balance sheet committee of the board of directors as necessary and, in any case, at least once per year.

In the reporting period, the entity implemented hedging transactions whose effect on the income statement is minimal.

9.5 *Events subsequent to balance sheet date*

Further to what is stated in paragraph 7 above, no material events were recorded by the Corporation with respect to market risks subsequent to the date of the report.

9.6 Subsidiaries

CII is exposed to the same market risks to which the Corporation is exposed and CII's policies are similar to those of the Corporation.

Nesher, Polgat and Kitan are exposed to fluctuations in prices of raw materials and energy as well as to changes in the exchange rates which effect the income and expenditure of these companies.

Nesher, Polgat and Kitan adjust sources of income and expenditure to these currencies. Polgat and Kitan frequently implement hedging transactions in foreign currency in order to reduce exposure. Nesher utilizes contracts for periods of up to one year for goods and various energy products in order to hedge against unexpected price increases in the global market.

10. Remuneration to Senior Employees

In determining payments of salary, bonuses and allocation of options, the board of directors of the Company considered, inter alia, the status and position of each senior position holder, his contribution to the activity and advancement of the Company and the Company's volume of activity. Regarding the plan for granting options, which may be exercised during a long period of time, the principal consideration was encouragement of the long term relationship and obligation of each of the senior position holders to the Company, including their contribution to the Company's capital and its investment, development and administrative results.

11. Assistance to the Israeli Community

The Company views its contribution and assistance to the community as a vital component of its visionary business plan. Commencing in 1998, in the framework of the IDB Group and in cooperation with the University of the Negev, the Company has adopted a special social project - an open housing program in three neighborhoods of Beer Sheva.

The Company encourages the Group companies to intensify their activities in the framework of "Business for the Community" projects.

The Tapuach Foundation was established at the initiative of the IDB Group and with the participation of the Company and its subsidiaries, for the promotion of information in Israel, the aim thereof being to train the general public for Internet utilization and the acquisition of technological skills while focusing on underprivileged neighborhoods, development towns and minority settlements.

The Foundation's long term program includes the establishment of 30 community centers. As of the date of the approval of the financial statements, 20 community centers commenced operating.

12. Replacement of the Company's General Manager

Comencing as of February 1, 2001, Mr. Meir Shannie replaced Mr. Rimon Ben-Shaoul as the General Manager of the Company.

We wish to express our gratitude to the managers and employees of the Group for their contribution to the progress and development of the Group.

LEON RECANATI
Chairman of the Board

MEIR SHANNIE
General Manager

CLAL INDUSTRIES AND INVESTMENTS LTD.

FINANCIAL STATEMENTS

As of December 31, 2000

CLAL INDUSTRIES AND INVESTMENTS LTD.

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000**

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CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED BALANCE SHEETS

In thousands of shekels of December 2000

| | | December 31 | |
|--|------|------------------|------------------|
| | Note | 2000 | 1999 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 71,635 | 395,743 |
| Short-term investments | (3) | 75,202 | 578,888 |
| Trade receivables | (4) | 349,556 | 279,772 |
| Other receivables and prepayments | (5) | 148,068 | 117,563 |
| Inventories | (6) | 710,357 | 501,255 |
| | | <u>1,354,818</u> | <u>1,873,221</u> |
| LONG-TERM DEPOSITS, LOANS AND RECEIVABLES | | | |
| | (7) | <u>83,507</u> | <u>92,205</u> |
| INVESTMENTS | | | |
| Investee companies | (8) | 1,901,084 | 1,931,338 |
| Other | (9) | 1,025,329 | 858,178 |
| | | <u>2,926,413</u> | <u>2,789,516</u> |
| FIXED ASSETS | | | |
| | (10) | | |
| Cost | | 6,826,720 | 3,707,375 |
| Less - accumulated depreciation | | 4,361,224 | 2,422,942 |
| | | <u>2,465,496</u> | <u>1,284,433</u> |
| OTHER ASSETS AND DEFERRED CHARGES | | | |
| | (11) | <u>225,907</u> | <u>204,085</u> |
| | | <u>7,056,141</u> | <u>6,243,460</u> |

| | | December 31 | |
|---|-------------|-------------------------|-------------------------|
| | Note | 2000 | 1999 |
| CURRENT LIABILITIES | | | |
| Banks | (12) | 1,652,938 | 938,678 |
| Trade payables | (13) | 301,183 | 211,425 |
| Other payables | (14) | 374,768 | 475,088 |
| Other current liabilities | (15) | 40,908 | 63,054 |
| | | <u>2,369,797</u> | <u>1,688,245</u> |
| LONG-TERM LIABILITIES | | | |
| Debentures | (16) | 18,137 | 25,532 |
| Loans | (17) | 511,921 | 214,985 |
| Deferred taxes | (18) | 245,569 | 134,228 |
| Termination benefits | (19) | 118,913 | 59,676 |
| Other liabilities | (20) | 81,979 | 92,351 |
| | | <u>976,519</u> | <u>526,772</u> |
| CONTINGENT LIABILITIES AND COMMITMENTS | | | |
| | (21) | | |
| MINORITY INTERESTS | | | |
| | | <u>707,304</u> | <u>898,005</u> |
| SHAREHOLDERS' EQUITY | | | |
| | (22) | <u>3,002,521</u> | <u>3,130,438</u> |
| | | <u><u>7,056,141</u></u> | <u><u>6,243,460</u></u> |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

BALANCE SHEETS

In thousands of shekels of December 2000

| | | December 31 | |
|--|-------------|--------------------|------------------|
| | Note | 2000 | 1999 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | - | 110,094 |
| Short-term investments | (3) | 64,043 | 131,492 |
| Receivables | (5) | 10,846 | 9,363 |
| | | <u>74,889</u> | <u>250,949</u> |
| INVESTMENTS | | | |
| Investee companies | (8) | 4,111,199 | 2,934,904 |
| Other | (9) | 258,671 | 258,532 |
| | | <u>4,369,870</u> | <u>3,193,436</u> |
| OTHER ASSETS AND DEFERRED CHARGES | | | |
| | (11) | <u>6,736</u> | <u>8,038</u> |
| | | <u>4,451,495</u> | <u>3,452,423</u> |

| | | December 31 | |
|---|-------------|--------------------|------------------|
| | Note | 2000 | 1999 |
| CURRENT LIABILITIES | | | |
| Banks | (12) | 856,437 | 113,728 |
| Payables | (14) | 4,515 | 4,777 |
| Other current liabilities | (15) | 197,819 | 22,826 |
| | | <u>1,058,771</u> | <u>141,331</u> |
| LONG-TERM LIABILITIES | | | |
| Debentures | (16) | 18,137 | 25,532 |
| Loans | (17) | 367,967 | 93,128 |
| Other liabilities | (20) | 4,099 | 61,994 |
| | | <u>390,203</u> | <u>180,654</u> |
| CONTINGENT LIABILITIES AND COMMITMENTS | | | |
| | (21) | | |
| SHAREHOLDERS' EQUITY | | | |
| | (22) | <u>3,002,521</u> | <u>3,130,438</u> |
| | | <u>4,451,495</u> | <u>3,452,423</u> |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands of shekels of December 2000, except earnings per share

| | Note | For the year ended December 31 | | |
|--|------|-----------------------------------|-----------|-----------|
| | | 2000 | 1999 | 1998 |
| REVENUES, NET | | | | |
| Sales and services | | 3,223,721 | 2,102,877 | 1,894,424 |
| Equity in earnings (losses) of investee companies | | (95,762) | 167,502 | 11,131 |
| Other income (expenses), net | (25) | (192,947) | 408,777 | 436,489 |
| | | 2,935,012 | 2,679,156 | 2,342,044 |
| COSTS AND EXPENSES | | | | |
| Cost of sales and services | (26) | 2,363,108 | 1,463,325 | 1,380,781 |
| Selling and marketing expenses | (27) | 336,466 | 279,831 | 235,478 |
| General and administrative expenses | (28) | 200,539 | 169,472 | 157,251 |
| Financing expenses (income), net | (29) | 155,078 | (23,467) | 412 |
| | | 3,055,191 | 1,889,161 | 1,773,922 |
| Income (loss) before taxes on income | | (120,179) | 789,995 | 568,122 |
| TAXES ON INCOME | (32) | 96,742 | 47,823 | 106,199 |
| Income (loss) after taxes on income | | (216,921) | 742,172 | 461,923 |
| MINORITY INTERESTS | | 129,083 | (313,743) | (234,251) |
| Income (loss) from continuing operations | | (87,838) | 428,429 | 227,672 |
| INCOME FROM DISCONTINUED SEGMENT OPERATIONS | | - | - | 69,564 |
| Net income (loss) | | (87,838) | 428,429 | 297,236 |
| EARNINGS (LOSS) PER SHARE | | | | |
| (in shekels) | (34) | | | |
| Earnings (loss) from continuing operations | | (0.63) | 3.05 | 1.62 |
| Earnings from discontinued segment operations | | - | - | 0.50 |
| | | (0.63) | 3.05 | 2.12 |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF OPERATIONS

In thousands of shekels of December 2000

| | | For the year ended | | |
|---|------|--------------------|-----------------|-----------------|
| | | December 31 | | |
| | Note | 2000 | 1999 | 1998 |
| REVENUES, NET | | | | |
| Equity in earnings of investee companies | | 17,442 | 494,776 | 241,560 |
| Other expenses, net | (25) | <u>(23,687)</u> | <u>(63,714)</u> | <u>(10,912)</u> |
| | | <u>(6,245)</u> | <u>431,062</u> | <u>230,648</u> |
| EXPENSES | | | | |
| General and administrative expenses | (28) | 6,073 | 1,608 | 1,275 |
| Financing expenses, net | (29) | <u>75,520</u> | <u>1,025</u> | <u>1,701</u> |
| | | <u>81,593</u> | <u>2,633</u> | <u>2,976</u> |
| Income (loss) from continuing operations | | (87,838) | 428,429 | 227,672 |
| INCOME FROM DISCONTINUED SEGMENT OPERATIONS | | <u>-</u> | <u>-</u> | <u>69,564</u> |
| Net income (loss) | | <u>(87,838)</u> | <u>428,429</u> | <u>297,236</u> |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of shekels of December 2000

| | <u>Share capital</u> | <u>Reserves (*)</u> | <u>Retained earnings</u> | <u>Total</u> |
|--|--------------------------|--------------------------|------------------------------|-------------------------|
| Balance as of January 1, 1998 | 1,168,755 | (49,929) | 1,784,867 | 2,903,693 |
| Conversion of convertible debentures into shares | 314 | 6,155 | - | 6,469 |
| Purchasing power gain on capital note issued to a company in the IDB Group | - | 653 | - | 653 |
| Differences arising from financial statements of certain investees adjusted to foreign currency | - | 80,513 | - | 80,513 |
| Net income | - | - | 297,236 | 297,236 |
| Dividend | - | - | (405,200) | (405,200) |
| Balance as of January 1, 1999 | <u>1,169,069</u> | <u>37,392</u> | <u>1,676,903</u> | <u>2,883,364</u> |
| Exercise of options into shares | 84 | 281 | - | 365 |
| Purchasing power gain on capital note issued to a company in the IDB Group | - | 98 | - | 98 |
| Erosion of dividend | - | - | (2,059) | (2,059) |
| Differences arising from financial statements of certain investees adjusted to foreign currency | - | (17,008) | - | (17,008) |
| Net income | - | - | 428,429 | 428,429 |
| Dividend | - | - | (162,751) | (162,751) |
| Balance as of January 1, 2000 | <u>1,169,153</u> | <u>20,763</u> | <u>1,940,522</u> | <u>3,130,438</u> |
| Exercise of options into shares | 218 | - | - | 218 |
| Differences arising from financial statements of certain investees adjusted to foreign currency | - | (40,297) | - | (40,297) |
| Net loss | - | - | (87,838) | (87,838) |
| Balance as of December 31, 2000 | <u><u>1,169,371</u></u> | <u><u>(19,534)</u></u> | <u><u>1,852,684</u></u> | <u><u>3,002,521</u></u> |

(*) Composition:

| | <u>December 31</u> | | |
|--|------------------------|----------------------|----------------------|
| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
| Capital reserves: | | | |
| Premium on shares | 213,450 | 213,450 | 213,169 |
| Capitalized earnings | 21,552 | 21,552 | 21,552 |
| Expired warrants of investee companies | 11,253 | 11,253 | 11,253 |
| Purchasing power gain on capital note issued to a company in the IDB Group | 4,586 | 4,586 | 4,488 |
| | <u>250,841</u> | <u>250,841</u> | <u>250,462</u> |
| Differences arising from financial statements of certain investees restated to foreign currency | (270,375) | (230,078) | (213,070) |
| | <u><u>(19,534)</u></u> | <u><u>20,763</u></u> | <u><u>37,392</u></u> |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of shekels of December 2000

| | For the year ended December 31 | | |
|--|---------------------------------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | (87,838) | 428,429 | 297,236 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities (see Note A) | 398,470 | 114,347 | 94,583 |
| Net cash provided by operating activities | 310,632 | 542,776 | 391,819 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of fixed and other assets | (208,970) | (172,078) | (319,331) |
| Investment grant received (repaid) | 6,441 | 1,370 | (173) |
| Acquisition of newly consolidated subsidiaries (see Note B) | (880,518) | (39,072) | 7,499 |
| Investments in investee companies and other investments | (898,809) | (875,312) | (830,046) |
| Decrease in marketable securities, net | 154,553 | 4,379 | 63,508 |
| Proceeds from disposal of fixed assets | 20,822 | 20,527 | 31,748 |
| Proceeds from disposal of investments | 200,104 | 644,446 | 796,923 |
| Proceeds from sale of previously consolidated subsidiaries (see Note C) | - | 4,573 | 316,036 |
| Decrease (increase) in deposits and short-term loans | 290,442 | 25,829 | (225,070) |
| Increase in deposits and long-term loans | (3,649) | (45,767) | (28,239) |
| Decrease (increase) in short-term loans to companies in the IDB Group | 60,164 | (66,400) | (35,127) |
| Collection of long-term loans to companies in the IDB Group | 51,426 | 6,412 | 33,910 |
| Collection of long-term loans and other receivables | 39,848 | 86,461 | 170,821 |
| Net cash used in investing activities | (1,168,146) | (404,632) | (17,541) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issuance of shares to minority shareholders | 10,564 | 10,453 | 19,200 |
| Exercise of options | 218 | 365 | - |
| Receipt of loans and other long-term liabilities: | | | |
| Banks and others | 356,535 | 81,567 | 91,912 |
| Companies in the IDB Group | - | 2,279 | 3,909 |
| Repayment of loans and other long-term liabilities: | | | |
| Banks and others | (176,496) | (64,768) | (228,373) |
| Companies in the IDB Group | (40,296) | (25,992) | (31,815) |
| Issuance of debentures | 2,107 | - | - |
| Redemption of debentures | (19,534) | - | (17,502) |
| Changes in short-term credit from banks, net | 439,367 | 620,805 | 66,455 |
| Increase (decrease) in other current liabilities, net | 1,118 | (590) | (575) |
| Dividend paid to minority shareholders of subsidiaries | (33,903) | (101,214) | (103,226) |
| Dividend paid to Company shareholders | - | (570,010) | - |
| Net cash provided by (used in) financing activities | 539,680 | (47,105) | (200,015) |
| TRANSLATION DIFFERENCES IN RESPECT OF CASH BALANCES HELD BY AUTONOMOUS INVESTEES | | | |
| | (6,274) | (3,810) | 6,476 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (324,108) | 87,229 | 180,739 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 395,743 | 308,514 | 127,775 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 71,635 | 395,743 | 308,514 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In thousands of shekels of December 2000

| | For the year ended December 31 | | |
|---|--------------------------------|-----------------|----------------|
| | 2000 | 1999 | 1998 |
| A. ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Charges (credits) to income not affecting operating cash flows: | | | |
| Minority interests | (129,083) | 313,743 | 241,331 |
| Group equity in losses of associated companies, net (*) | 138,995 | 45,582 | 9,990 |
| Gain on sale of investments, net | (199,643) | (525,350) | (552,309) |
| Decrease in value of investments and losses of partnerships | 366,838 | 55,429 | 31,448 |
| Depreciation and amortization | 306,101 | 216,883 | 221,465 |
| Gain on sale of fixed and other assets | (6,729) | (6,457) | (5,667) |
| Deferred taxes | 6,992 | (10,998) | 9,093 |
| Increase in termination benefit obligations | 32,649 | 7,123 | 10,967 |
| Purchasing power gain (loss) on long-term deposits, loans and receivables | (258) | 439 | (4,560) |
| Purchasing power loss (gain) on long-term liabilities | (3,175) | (410) | 4,401 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in receivables and prepayments | (27,786) | 55,269 | 36,741 |
| Decrease (increase) in inventories | (52,354) | 12,243 | 44,652 |
| Increase (decrease) in payables | (34,077) | (49,149) | 47,031 |
| | <u>398,470</u> | <u>114,347</u> | <u>94,583</u> |
| (*) Dividends received | <u>43,233</u> | <u>213,084</u> | <u>22,500</u> |
| B. ACQUISITION OF NEWLY CONSOLIDATED SUBSIDIARIES | | | |
| Assets and liabilities of subsidiaries at date of acquisition: | | | |
| Negative working capital (working capital), excluding cash | 204,778 | (137,012) | (20,132) |
| Holdings in investee companies and in others | (50,684) | - | - |
| Fixed assets, other assets and deferred charges | (1,307,959) | (162,645) | (7,223) |
| Long-term liabilities | 269,297 | 70,356 | 3,270 |
| Minority interests | 4,050 | 87,470 | 553 |
| Equity at date of acquisition (formerly associated company) | - | 102,759 | 11,499 |
| Acquisition of assets on credit | - | - | 19,532 |
| | <u>(880,518)</u> | <u>(39,072)</u> | <u>7,499</u> |
| C. PROCEEDS FROM SALE OF PREVIOUSLY CONSOLIDATED SUBSIDIARIES | | | |
| Assets and liabilities of subsidiaries at date of sale: | | | |
| Working capital (negative working capital), excluding cash | - | (342) | 91,290 |
| Investments, fixed assets, other assets and deferred charges | - | 3,816 | 668,343 |
| Long-term liabilities | - | (424) | (272,726) |
| Goodwill | - | - | (1,169) |
| Minority interests | - | - | (225,056) |
| Gain on sale of investments | - | 1,523 | 75,645 |
| Equity at date consolidation ceased (associated company) | - | - | (12,359) |
| Sale of assets on credit | - | - | (7,932) |
| | <u>-</u> | <u>4,573</u> | <u>316,036</u> |
| D. NONCASH TRANSACTIONS | | | |
| Debentures of Company converted to shares | - | - | 6,469 |
| Sale of assets on credit | 136 | - | 7,932 |
| Investments in investee and other companies and purchase of assets on credit | 5,784 | 164,822 | 17,975 |
| Assets exchanged as consideration for sale of subsidiary | - | - | 14,749 |
| Proceeds from sale of another company received in marketable shares | 10,831 | - | - |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CASH FLOWS

In thousands of shekels of December 2000

| | For the year ended December 31 | | |
|--|---------------------------------------|------------------|------------------|
| | 2000 | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | (87,838) | 428,429 | 297,236 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (see Note A) | 48,902 | 1,014,898 | (301,170) |
| Net cash provided by (used in) operating activities | <u>(38,936)</u> | <u>1,443,327</u> | <u>(3,934)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Granting of loans to investee companies | (291,386) | (38,051) | - |
| Investments in investee companies and others | (1,148,900) | (323,652) | (340,114) |
| Proceeds from disposal of investments | 99,828 | 1,818 | 70,965 |
| Collection of loans to investee companies | 12,097 | 2,910 | 106,968 |
| Investment in short-term deposit in investee company | (2,262) | (60,814) | - |
| Investment in marketable securities, net | 69,711 | (66,853) | - |
| Net cash used in investing activities | <u>(1,260,912)</u> | <u>(484,642)</u> | <u>(162,181)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Changes in short-term credit from banks, net | 717,051 | 113,728 | - |
| Receipt (repayment) of short-term loans from investee companies | 165,167 | (407,405) | 223,981 |
| Receipt of long-term loan from banks | 109,897 | 20,189 | 20,829 |
| Receipt of long-term loan from investee company | 221,802 | 12,590 | - |
| Repayment of long-term loan from bank | - | - | (60,556) |
| Repayment of loans from IDB Group companies | (6,245) | (18,048) | (5,797) |
| Redemption of debentures | (18,136) | - | (12,342) |
| Dividend paid | - | (570,010) | - |
| Exercise of options into shares | 218 | 365 | - |
| Net cash used in financing activities | <u>1,189,754</u> | <u>(848,591)</u> | <u>166,115</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | (110,094) | 110,094 | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | |
| | <u>110,094</u> | <u>-</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| | <u>-</u> | <u>110,094</u> | <u>-</u> |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CASH FLOWS (Cont.)

In thousands of shekels of December 2000

| | For the year ended December 31 | | |
|---|---------------------------------------|---------------|-------------|
| | 2000 | 1999 | 1998 |
| A. ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Charges (credits) to income not affecting operating cash flows: | | | |
| Equity in losses (undistributed net earnings) of investee companies(*) | 7,741 | 941,621 | (309,886) |
| Loss (gain) on sale of investments in investee companies and losses of partnerships | (21,752) | 11,410 | 5,051 |
| Decrease in value of investments | 64,150 | 16,330 | 5,861 |
| Depreciation and amortization | 1,302 | 39,748 | 1,767 |
| Net purchasing power gain on assets and liabilities | (864) | (1,686) | 4,436 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in receivables and prepayments | (1,413) | 4,882 | (5,324) |
| Increase (decrease) in payables | (262) | 2,593 | (3,075) |
| | 48,902 | 1,014,898 | (301,170) |
| (*) Dividends received | 25,183 | 1,436,397 | 1,238 |
| B. NONCASH TRANSACTIONS | | | |
| Debentures of Company converted to shares | - | - | 6,469 |

The notes and appendices to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 1 - GENERAL

- A. The Company is an investment company whose primary holdings are in the fields of industry and high technology. For details of business segments, see Note 33. Items in the statement of operations are classified and presented in conformity with the nature of the operations of the Group.
- B. In July 2000, Clal (Israel) Ltd (“Clal”), which was the parent company of the Company, merged with IDB Development Ltd (“IDB”). Upon finalization of the merger, IDB held 71.2% of the shares of the Company (Clal’s previous percentage of holding). The term “IDB group company” in these financial statements refers to an investee company of the parent company, except Clal Industries and Investment Ltd group companies (“investee companies”). The term “group companies” in these financial statements refers to the Company and its investee companies.
- C. On March 13, 2001 the board of directors of the Company decided to examine the possibility and implications of a merger of the Company with Clal Electronics Industries Ltd, by way of exchange of shares so that after the merger, the Company will hold all of the shares of Clal Electronics Industries. Also, the board of directors of the Company decided to authorize management of the Company to negotiate with Clal Electronics Industries regarding the conditions of the merger and to formulate a merger proposal which will be presented for discussion and approval of the board of directors of the Company. It was also decided to appoint a joint independent valuer which will determine the number of shares which the Company will allocate to the Clal Electronics Industries shareholders in the framework of the merger (“the proceeds”), if such merger is approved, and to appoint an additional independent valuer to provide a professional opinion in respect of the appropriateness of the proceeds.
- D. The balance sheets as of December 31, 2000 reflect a deficiency in working capital. In the opinion of management of the Company, the Company is able to raise the required means to continue to finance its activity and to repay its liabilities.
- E. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the financial statements, on a consistent basis, are:

A. ADJUSTED FINANCIAL STATEMENTS

The financial statements are presented on the basis of the historical cost convention adjusted for the changes in the general purchasing power of the Israeli currency.

The investee companies in Israel maintain their accounts in nominal shekels. The nominal figures are adjusted to shekels of equivalent purchasing power (shekels of December 2000) in accordance with principles prescribed by Statements of the Institute of Certified Public Accountants in Israel, on the basis of changes in the Consumer Price Index. In the year ended December 31, 2000 the consumer price index remained unchanged (1999 - 1.3%; 1998 - 8.6%). Condensed financial statement data of the Company in nominal values are presented in Appendix "A".

BALANCE SHEET

Nonmonetary items are adjusted in accordance with the changes in the Consumer Price Index (as published on the fifteenth of the following month).

Monetary items are presented in the adjusted balance sheet at their nominal value. Comparative data were adjusted to shekels of December 2000.

Investments at equity are based on the adjusted financial statements of the investee companies.

The adjusted values of nonmonetary items should not be construed as a presentation of realizable values or real economic values but merely the original values restated for the changes in the general purchasing power of the currency.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES (Cont.)

A. ADJUSTED FINANCIAL STATEMENTS (Cont.)

STATEMENT OF OPERATIONS

Revenues from sales and services are adjusted in accordance with the change in the index - partly from date of receipt of proceeds from customers and partly from transaction date (*) - to balance sheet date.

Expenses, other than financing expenses and those deriving from nonmonetary items, are adjusted for the changes in the index - partly from the date of payment and partly from transaction date (*) - to balance sheet date.

Income and expenses deriving from nonmonetary items are adjusted in correspondence with the adjusted balance sheet item.

Group equity in the results of the investee companies is based on their adjusted financial statements.

The balance of the inflationary restatement, not attributed to revenues and expenses as stated above, is included in financing expenses.

(*) Adjustments based on date of transaction in lieu of date of cash flows has no material effect on results of operations.

ADJUSTMENT BASED ON RATE OF EXCHANGE AND FOREIGN INVESTEES

The financial statements of foreign investees which are integral to the operations of the Group are translated into Israeli currency as follows: nonmonetary balance sheet items are translated at historical exchange rates and adjusted for the changes in the Consumer Price Index; monetary items are translated at the rate of exchange at balance sheet date; items in the statement of operations are translated at average exchange rates and adjusted for the changes in the Consumer Price Index. Translation differences are included in financing income or expenses.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES (Cont.)

A. ADJUSTED FINANCIAL STATEMENTS (Cont.)

Certain Israeli investee companies that operate autonomously receive most of their revenues and acquire most of their assets in foreign currency. These companies and an Israeli investee company, whose securities are traded on a foreign stock exchange and that operates autonomously, adjusted their financial statements on the basis of the changes in the exchange rate of the U.S. dollar. (In 2000, the exchange rate of the U.S. dollar decreased by 2.7%; 1999 - decreased by 0.2%; 1998 - increased by 17.6%). The holding companies restate their investment in these investee companies on the basis of changes in the Consumer Price Index. The net equity of the investees is adjusted on the basis of changes in the exchange rate. The difference between the restatements is included in a separate component of shareholders' equity ("differences arising from financial statements of certain investees restated to foreign currency").

B. CONSOLIDATION OF FINANCIAL STATEMENTS

The financial statements of the Company are consolidated with those of its subsidiaries that are majority controlled and of its 50% jointly controlled investee companies which are consolidated according to the proportionate consolidation method (hereinafter - subsidiaries). Results of operations of subsidiaries sold or of companies in which the Company does not have de facto control, are included in the consolidated results until the date of sale or loss of control. Results of operations of subsidiaries purchased are included from the date of purchase.

Material intercompany transactions and balances have been eliminated in the consolidated financial statements.

C. INVENTORIES

Inventories are stated at the lower of cost or market, cost being determined partly by the average cost method and partly by the "first-in, first-out" method.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES (Cont.)

D. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is computed partly for specific accounts the collectibility of which is doubtful and also includes a general provision, the amount of which is determined by management based on prior experience.

E. INVESTMENTS IN INVESTEE COMPANIES

Investments in investee companies are accounted for in the financial statements by the equity method. The equity of the holding company is based on the outstanding share capital as of balance sheet date; rights for the acquisition of shares are not taken into account, although provisions for losses resulting from the possible exercise of warrants or conversion of convertible securities issued by investee companies have been made, where such exercise or conversion appears to be probable.

Goodwill arising on the acquisition of investee companies not attributed to specific assets is amortized at rates of 10% and 20% per annum (mainly 10%). The period of amortization is re-assessed periodically based on the anticipated benefit that may be derived from the asset.

In process research and development acquired upon the purchase of shares in investee companies is charged to operations on acquisition.

The Company examines from time to time the value of its investments and includes in its accounts, as required, amortization for decrease in value which is not of a temporary nature.

The value of the investments is determined on the assumption that these investments are held by the Company as long term investments. This value does not necessarily represent the market value of the investments or their realization prices on the short term.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES (Cont.)

F. OTHER INVESTMENTS

The investment in shares in venture capital funds (mainly constituted as partnerships) in which the Company exercises significant influence, is presented in the financial statements on the basis of the net book value as of balance sheet date.

Short-term investments in marketable securities are carried at market value as of balance sheet date. Changes in the value of the securities are recognized in the statement of operations.

Investments in nonmarketable securities and in noncurrent marketable securities are carried at cost (debentures, other than convertible debentures, include linkage differences and accrued interest calculated according to the interest rate method) after write-down for declines in value which are other than temporary.

The value of the investments is determined on the assumption that these investments are held by the Company as long term investments. This value does not necessarily represent the market value of the investments or their realization prices on the short term.

The investment in gas and petrol prospecting is handled in accordance with the "success" method according to which current expenses in respect of trials and surveys are charged to the income statement when incurred. The investment in drilling, as long as certainty does not exist regarding their production which is not deemed to be insufficient for commercial purposes, is included in the balance sheet at cost. If it is determined that the drilling sites are dry or insufficient for commercial purposes, the investments are amortized in full to profit and loss. If it is determined that reserves of gas or petrol exist in the sites, the cost will be amortized on the basis of the quantity derived in proportion to the total proven reserves in the same year.

G. FIXED ASSETS

Fixed assets are stated at cost to the Group, after deduction of investment grants received. Improvements and betterments are charged to the cost of assets while maintenance and repairs are charged to operations as incurred.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES (Cont.)

H. OTHER ASSETS

Real estate is carried at cost, net of depreciation computed by the straight-line method over the estimated useful life. Assets designated for disposal are carried at the lower of cost or anticipated realization value.

I. DEFERRED CHARGES

Debenture issue expenses and expenses in obtaining long-term loans are amortized over the terms of the debentures and loans on the basis of their outstanding balances.

J. REVENUE RECOGNITION

Revenue from sales is recognized upon shipment of goods to customers. Revenue from services is recognized as the services are provided. Income from rental of assets is included on the basis of the rental period. Income from construction work is included as from January 2000 in accordance with Accounting Standard Number 2 - Construction of Buildings for Sale. According to this Standard, income from such sale should be recognized by multiplication of the proceeds from the sale by the rate of project completion, but not before the sale proceeds constitute at least 50% of the total expected income therefrom and the rate of completion of the project is at least 25%. Application of the Standard for the first time did not have a material effect.

K. RESEARCH AND DEVELOPMENT COSTS

Costs of research and development, net of grants and participations, are charged to operations as incurred.

L. TAXES ON INCOME

Deferred taxes are provided for temporary differences in the recognition of revenues and expenses for financial reporting and tax purposes and also for the difference between the adjusted value of nonmonetary assets and the value that will be allowed as a deduction for tax purposes (other than the difference in respect of buildings and private motor vehicles). The deferred amount is computed at the tax rates that will be in effect at the time of utilization of the deferral or realization of the tax benefits, as they are known at the time the financial statements are prepared.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 2 - ACCOUNTING POLICIES (Cont.)

L. TAXES ON INCOME (Cont.)

Deferred taxes are not provided with respect to taxes that would be incurred if investments in investee companies were realized, as long as there is a presumption of continuity of investment in these companies and a policy of withdrawing dividend from investee companies in such a way that will not incur any further taxes.

M. EARNINGS PER SHARE

Primary earnings per share are computed on the basis of the weighted average of paid-up share capital outstanding during the year, retroactively adjusted for bonus shares. The computation assumes the exercise of options and warrants as of the beginning of the year or, if later, the date of issuance, if conversion or exercise appears probable.

Fully diluted earnings per share are computed as above and also include the effect of the assumed exercise of options that was not included in the computation of primary earnings per share. Securities derived from the exercise of options for which the effect of the assumed exercise would be antidilutive are excluded from the computation.

N. LINKED BALANCES AND BALANCES IN FOREIGN CURRENCY

Balances in or linked to foreign currency are stated in the financial statements at the representative exchange rate at balance sheet date. The representative exchange rate of the U.S. dollar on balance sheet date - NIS 4.041 (1999 - NIS 4.153; 1998 - NIS 4.160).

Balances linked to the Consumer Price Index are based on the appropriate index for each linked asset or liability.

O. DERIVATIVE FINANCIAL INSTRUMENTS

Results of hedging transactions for future purchase or sale of foreign currency intended to secure export proceeds and costs of assets against changes in currency exchange rates, are reflected in the statement of operations concurrently with recording the results of the transactions which they were intended to secure. The results of other futures transactions are reflected currently in the statement of operations.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 3 - SHORT-TERM INVESTMENTS

| | CONSOLIDATED | | COMPANY | |
|---------------------------------------|--------------|---------|---------|---------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Marketable securities (1): | | | | |
| Shares | 9,010 | 8,454 | 485 | 1,369 |
| Convertible debentures | 288 | 21,342 | - | - |
| Government bonds and other debentures | 1,752 | 63,828 | - | - |
| Mutual funds | 7,039 | 68,827 | - | 68,827 |
| | 18,089 | 162,451 | 485 | 70,196 |
| Short-term loans and deposits (2): | | | | |
| Bank deposits | 20,341 | 296,140 | 487 | 482 |
| Loans | 36,772 | 120,297 | 63,071 | 60,814 |
| | 57,113 | 416,437 | 63,558 | 61,296 |
| | 75,202 | 578,888 | 64,043 | 131,492 |

(1) Includes:

Marketable securities of investee companies:

| | | | | |
|------------------------|---|-----|---|-----|
| Shares | - | 754 | - | 754 |
| Convertible debentures | - | 226 | - | - |

(2) Includes:

| | | | | |
|--|--------|--------|-----------|--------|
| Loans to investee companies | - | 556 | 63,071(*) | 60,814 |
| Current maturities of long-term loans and deposits | 36,723 | 79,910 | - | - |

(*) Balance linked to the United States dollar, bearing interest at the rate of 7.6% per annum.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 4 - TRADE RECEIVABLES - CONSOLIDATED

| | December 31 | |
|--|-----------------------|-----------------------|
| | 2000 | 1999 |
| Open accounts | 259,611 | 207,321 |
| Checks receivable | 102,312 | 81,540 |
| | <u>361,923</u> | <u>288,861</u> |
| Less - allowance for doubtful accounts | 12,367 | 9,089 |
| | <u><u>349,556</u></u> | <u><u>279,772</u></u> |

Note 5 - OTHER RECEIVABLES AND PREPAYMENTS

| | CONSOLIDATED | | COMPANY | |
|---|---------------------|----------------|----------------|--------------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Government agencies | 56,306 | 41,264 | - | - |
| Dividend receivable from investee companies | 8,253 | 10,581 | 8,253 | 8,285 |
| Investee companies | 2,266 | 387 | 892 | - |
| Employees | 2,281 | 3,029 | - | - |
| Future tax benefits (see Note 18) | 19,336 | 14,967 | - | - |
| Prepaid expenses | 16,767 | 16,507 | - | - |
| Other | 42,859 | 30,828 | 1,701 | 1,078 |
| | <u>148,068</u> | <u>117,563</u> | <u>10,846</u> | <u>9,363</u> |

Note 6 - INVENTORIES - CONSOLIDATED

| | December 31 | |
|--|--------------------|----------------|
| | 2000 | 1999 |
| Finished goods | 151,532 | 129,829 |
| Merchandise | 121,158 | 75,572 |
| Work in process | 102,021 | 83,865 |
| Raw and auxiliary materials | 306,300 | 190,504 |
| Inventories of residential units | 6,243 | 7,163 |
| Merchandise and materials in transit and payments on account | 23,103 | 14,322 |
| | <u>710,357</u> | <u>501,255</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 7 - LONG-TERM DEPOSITS, LOANS AND RECEIVABLES - CONSOLIDATED

A. COMPOSITION

| | December 31 | |
|--|--------------------|-------------|
| | 2000 | 1999 |
| Deposits and loans: | | |
| Banks | 45,310 | 81,423 |
| IDB Group companies | 14,048 | 50,147 |
| Other | 57,497 | 37,121 |
| | 116,855 | 168,691 |
| Less - current maturities | 36,723 | 79,910 |
| | 80,132 | 88,781 |
| Deposits in excess of accrued severance pay (see Note 19) | 3,375 | 3,424 |
| | 83,507 | 92,205 |

B. LINKAGE TERMS AND INTEREST RATES

| | Annual interest rate (*) % | December 31 | |
|------------------------------------|---|--------------------|-------------|
| | | 2000 | 1999 |
| Banks and others: | | | |
| Linked to the Consumer Price Index | 5.6 | 88,746 | 106,042 |
| In or linked to the U.S. dollar | 8.6 | 7,798 | 12,301 |
| Not linked | - | 6,263 | 201 |
| | | 102,807 | 118,544 |
| Companies in the Clal Group: | | | |
| Linked to the Consumer Price Index | 4.4 | 13,292 | 50,147 |
| In or linked to the U.S. dollar | - | 756 | - |
| | | 14,048 | 50,147 |
| | | 116,855 | 168,691 |

(*) Weighted average rate as of December 31, 2000.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 7 - LONG-TERM DEPOSITS, LOANS AND RECEIVABLES (Cont.)

C. MATURITIES AS OF DECEMBER 31, 2000

| <u>Year</u> | <u>Banks and others</u> | <u>IDB Group companies</u> | <u>Total</u> |
|---------------------------|---------------------------------|------------------------------------|----------------|
| 2001 - current maturities | 23,256 | 13,467 | 36,723 |
| 2002 | 31,883 | 104 | 31,987 |
| 2003 | 1,673 | 106 | 1,779 |
| 2004 | 196 | 108 | 304 |
| 2005 | - | 111 | 111 |
| 2006 - 2010 | - | 152 | 152 |
| Not yet determined | 45,799 | - | 45,799 |
| | <u>102,807</u> | <u>14,048</u> | <u>116,855</u> |

D. CLASSIFICATION OF BALANCES OF LOANS AND OTHER RECEIVABLES ACCORDING TO SIZE AS OF DECEMBER 31, 2000.

The balance due from any single borrower does not exceed 5% of shareholders' equity.

| <u>Size of balances</u> | <u>Number of loans</u> | <u>Total</u> |
|-------------------------|----------------------------|---------------|
| Up to 100 | 31 | 1,929 |
| From 100 to 2,500 | 4 | 4,108 |
| From 2,500 to 7,500 | 1 | 5,661 |
| More than 7,500 | 1 | 45,799 |
| | <u>37</u> | <u>57,497</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES

A. COMPOSITION

| | CONSOLIDATED | | COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Shares | | | | |
| Subsidiaries | - | - | 3,221,673 | 2,264,733 |
| Associated companies | 1,848,396 | 1,688,966 | 551,846 | 550,359 |
| Total (1) | 1,848,396 | 1,688,966 | 3,773,519 | 2,815,092 |
| Convertible debentures of associated company (2) | 4,546 | 166,120 | - | - |
| Loans and other receivables (3) | 1,367 | 13,829 | 337,680 | 57,818 |
| | <u>1,854,309</u> | <u>1,868,915</u> | <u>4,111,199</u> | <u>2,872,910</u> |
| Presented as follows: | | | | |
| Investments | 1,901,084 | 1,931,338 | 4,111,199 | 2,934,904 |
| Other long-term liabilities | (46,775) | (62,423) | - | (61,994) |
| | <u>1,854,309</u> | <u>1,868,915</u> | <u>4,111,199</u> | <u>2,872,910</u> |

(1) Composition of investment in shares

| | CONSOLIDATED | | COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Cost and post-acquisition earnings until January 1, 1992 | 1,880,233 | 1,604,259 | 3,572,844 | 2,588,663 |
| Post-acquisition net earnings subsequent to 1992 | 73,692 | 151,726 | 215,241 | 200,747 |
| Accumulated capital reserves subsequent to 1992: | | | | |
| Differences arising from financial statements of certain investees restated to foreign currency | (114,393) | (75,883) | (76,343) | (36,095) |
| Other reserves | 8,864 | 8,864 | 61,777 | 61,777 |
| | <u>1,848,396</u> | <u>1,688,966</u> | <u>3,773,519</u> | <u>2,815,092</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

A. COMPOSITION (Cont.)

- (2) The investment in debentures of affiliated companies convertible to shares in those companies. The debentures are linked to the United States dollar and bear interest at the rate of 8% per annum.
- (3) Terms of loans and other receivables (Loans as of December 31, 2000 do not bear interest).

| | CONSOLIDATED (Associated companies) | | | COMPANY (Subsidiaries) | | |
|--|--|-------|--------|---------------------------|---------|--------|
| | December 31 | | | | | |
| | Number of loans (*) | 2000 | 1999 | Number of loans (*) | 2000 | 1999 |
| Shekel loans (unlinked): | | | | | | |
| Interest bearing | | - | 3,093 | | - | - |
| Interest bearing at the rate of increase in the Consumer Price Index | | - | - | 4 | 309,688 | 30,399 |
| Non-interest bearing | 1 | 593 | - | | - | - |
| Loans linked to the Consumer Price Index: | | | | | | |
| Interest bearing | | - | 10,736 | | - | - |
| Non-interest bearing | | - | - | 1 | 23,551 | 23,528 |
| Unlinked non-interest bearing capital notes | | - | - | 4 | 4,441 | 3,891 |
| Loan linked to the U.S. dollar non-interest bearing | 1 | 774 | - | | - | - |
| | | 1,367 | 13,829 | | 337,680 | 57,818 |

Consolidated - The maturities of the loans have not yet been determined.

Company - The maturities of the loans have not yet been determined. Capital notes mature in 2016-2019 and are presented at their discounted present value.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

B. MOVEMENT OF INVESTMENTS IN 2000 IS AS FOLLOWS:

| | CONSOLIDATED | COMPANY | | |
|---|---------------------------------|---------------------|---------------------------------|------------------|
| | Associated companies | Subsidiaries | Associated companies | Total |
| Balance at beginning of year | 1,868,915 | 2,322,551 | 550,359 | 2,872,910 |
| Movement during the year: | | | | |
| Investments: | | | | |
| In shares | 150,808 | 985,147 | 46,803 | 1,031,950 |
| Investment in (repayment of) loans and current accounts, net | (13,345) | 279,862 | - | 279,862 |
| In convertible debentures | 4,546 | - | - | - |
| Sale of investments | (18,421) | - | (18,421) | (18,421) |
| Gains (losses) on changes in holdings in investee companies, net | 31,790 | (5,080) | (4,615) | (9,695) |
| Addition with respect to newly-consolidated subsidiary | 24,359 | - | - | - |
| Group's equity in net earnings | (95,762) | 6,185 | 11,257 | 17,442 |
| Dividends | (41,034) | (452) | (24,870) | (25,322) |
| Translation differences | (42,990) | (31,581) | (8,667) | (40,248) |
| Other changes | (14,557) | 2,721 | - | 2,721 |
| Balance at end of year | <u>1,854,309</u> | <u>3,559,353</u> | <u>551,846</u> | <u>4,111,199</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

C. INVESTMENTS IN MARKETABLE SECURITIES

| | December 31, 2000 | | | | | | | | | |
|---|--|---|------------------|---|--|--|---|------------------|---|--|
| | Consolidated | | | | | Company | | | | |
| | Investment in shares included in the balance sheet | Required adjustments in respect of translation of financial statements of investee companies | Total | Market value as of December 31, 2000 | Market value as of March 26, 2001 (*) | Investment in shares included in the balance sheet | Required adjustments in respect of translation of financial statements of investee companies | Total | Market value as of December 31, 2000 | Market value as of March 26, 2001 (*) |
| <u>NIS thousands</u> | | | | | | | | | | |
| Subsidiaries | | | | | | | | | | |
| Clal Electronics Industries Ltd | - | - | - | - | - | 819,222 | 142,626 | 961,848 | 982,643 | 553,034 |
| Polgat Ltd | - | - | - | - | - | 153,841 | 21,178 | 175,019 | 67,233 | 55,133 |
| | - | - | - | - | - | 973,063 | 163,804 | 1,136,867 | 1,049,876 | 608,167 |
| Affiliated companies | | | | | | | | | | |
| American Israeli Paper Mills Ltd | 173,593 | 102,259 | 275,852 | 333,793 | 281,565 | 173,593 | 102,259 | 275,852 | 333,793 | 281,565 |
| Fundtech Ltd | 233,568 | 3,339 | 236,907 | 276,905 | 108,188 | 233,568 | 3,339 | 236,907 | 276,905 | 108,188 |
| Jaf-Ora Ltd | 75,435 | - | 75,435 | 89,017 | 78,958 | 75,435 | - | 75,435 | 89,017 | 78,958 |
| Shamir Mivtach Holdings Ltd | 36,780 | 464 | 37,244 | 38,195 | 24,758 | 36,780 | 464 | 37,244 | 38,195 | 24,758 |
| Cargal Ltd | 37,235 | - | 37,235 | 29,260 | 36,641 | - | - | - | - | - |
| ECI Telecom Ltd | 756,063 | - | 756,063 | 717,575 | 454,613 | - | - | - | - | - |
| Scitex Corporation Ltd | 407,582 | - | 407,582 | 284,321 | 309,130 | - | - | - | - | - |
| Nova Ltd | 57,049 | - | 57,049 | 86,320 | 74,835 | - | - | - | - | - |
| Shellcase Ltd | 4,052 | - | 4,052 | 25,907 | 39,284 | - | - | - | - | - |
| Maman-Cargo Terminals and Handling Ltd | 43,586 | - | 43,586 | 56,202 | 44,183 | - | - | - | - | - |
| Gold-Bond Group Ltd | 6,512 | - | 6,512 | 3,751 | 2,995 | - | - | - | - | - |
| | <u>1,831,455</u> | <u>106,062</u> | <u>1,937,517</u> | <u>1,941,246</u> | <u>1,455,150</u> | <u>519,376</u> | <u>106,062</u> | <u>625,438</u> | <u>737,910</u> | <u>493,469</u> |
| | <u>1,831,455</u> | <u>106,062</u> | <u>1,937,517</u> | <u>1,941,246</u> | <u>1,455,150</u> | <u>1,492,439</u> | <u>269,866</u> | <u>1,762,305</u> | <u>1,787,786</u> | <u>1,101,636</u> |

(*) Based on the number of shares held by the Company and the group companies as of December 31, 2000.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

C. INVESTMENTS IN MARKETABLE SECURITIES (Cont.)

| | December 31, 1999 | | | | | | | |
|---|--|---|-----------|---|--|---|-----------|---|
| | Consolidated | | | | Company | | | |
| | Investment in shares included in the balance sheet | Required adjustments in respect of translation of financial statements of investee companies | Total | Market value as of December 31, 1999 | Investment in shares included in the balance sheet | Required adjustments in respect of translation of financial statements of investee companies | Total | Market value as of December 31, 1999 |
| <u>NIS thousands</u> | | | | | | | | |
| Subsidiaries | | | | | | | | |
| Clal Electronics Industries Ltd | - | - | - | - | 1,066,797 | 116,150 | 1,182,947 | 1,502,146 |
| Kitan Ltd | - | - | - | - | 288,634 | - | 288,634 | 297,228 |
| Polgat Ltd | - | - | - | - | 161,162 | 15,770 | 176,932 | 296,047 |
| | - | - | - | - | 1,516,593 | 131,920 | 1,648,513 | 2,095,421 |
| Affiliated companies | | | | | | | | |
| American Israeli Paper Mills Ltd | 167,019 | 98,297 | 265,316 | 320,790 | 167,019 | 98,297 | 265,316 | 320,790 |
| Fundtech Ltd | 251,448 | - | 251,448 | 326,371 | 251,448 | - | 251,448 | 326,371 |
| Jaf-Ora Ltd | 80,923 | - | 80,923 | 114,031 | 80,923 | - | 80,923 | 114,031 |
| Shamir Mivtach Holdings Ltd | 35,780 | (417) | 35,363 | 72,734 | 24,226 | (417) | 23,809 | 49,682 |
| Magam Group Ltd | 11,030 | - | 11,030 | 7,630 | 11,030 | - | 11,030 | 7,630 |
| Sunfrost Ltd | 6,236 | - | 6,236 | 27,854 | 6,236 | - | 6,236 | 27,854 |
| Cargal Ltd | 38,812 | - | 38,812 | 31,406 | - | - | - | - |
| ECI Telecom Ltd | 658,875 | - | 658,875 | 1,452,343 | - | - | - | - |
| Scitex Corporation Ltd | 238,518 | - | 238,518 | 337,583 | - | - | - | - |
| Maman-Cargo Terminals and Handling Ltd | 21,408 | - | 21,408 | 26,001 | - | - | - | - |
| Gold-Bond Group Ltd | 2,519 | - | 2,519 | 1,954 | - | - | - | - |
| | 1,512,568 | 97,880 | 1,610,448 | 2,718,697 | 540,882 | 97,880 | 638,762 | 846,358 |
| | 1,512,568 | 97,880 | 1,610,448 | 2,718,697 | 2,057,475 | 229,800 | 2,287,275 | 2,941,779 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

D. GOODWILL ON ACQUISITION OF INVESTEE COMPANIES

CONSOLIDATED (relates to associated companies)

| | December 31 | |
|--|-------------|---------|
| | 2000 | 1999 |
| Goodwill (excess of cost of investments over fair value on acquisition) | 476,821 | 282,048 |
| Less - accumulated amortization | 145,592 | 70,149 |
| Unamortized balance | 331,229 | 211,899 |
| Excess of fair value on acquisition over cost of investments (negative goodwill) | 12,771 | 14,019 |
| Less - accumulated amortization | 7,281 | 6,236 |
| Unamortized balance | 5,490 | 7,783 |

COMPANY

| | December 31 | | | |
|--|--------------|----------------------|---------|---------|
| | | 2000 | | 1999 |
| | Subsidiaries | Associated companies | Total | Total |
| Goodwill (excess of cost of investments over fair value on acquisition) | 96,331 | 172,590 | 268,921 | 241,829 |
| Less - accumulated amortization | 32,887 | 48,907 | 81,794 | 53,720 |
| Unamortized balance | 63,444 | 123,683 | 187,127 | 188,109 |
| Excess of fair value on acquisition over cost of investments (negative goodwill) | 51,021 | 12,771 | 63,792 | 62,230 |
| Less - accumulated amortization | 14,914 | 7,281 | 22,195 | 15,895 |
| Unamortized balance | 36,107 | 5,490 | 41,597 | 46,335 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

E. COMPANY'S SHARE OF ASSETS, LIABILITIES, REVENUES AND EXPENSES OF JOINTLY-CONTROLLED COMPANIES CONSOLIDATED BY THE PROPORTIONATE CONSOLIDATION METHOD

| | December 31 | |
|-----------------------|-------------|-----------|
| | 2000 | 1999 |
| Current assets | 6,424 | 296,423 |
| Non-current assets | 2,346 | 1,015,126 |
| Current liabilities | 4,467 | 551,442 |
| Long-term liabilities | 353 | 203,762 |
| Minority interests | - | 4,050 |

| | For the year ended December 31 | | |
|--------------------|--------------------------------|---------|---------|
| | 2000 | 1999 | 1998 |
| Revenues, net | 16,890 | 901,917 | 985,173 |
| Costs and expenses | 13,968 | 759,382 | 889,064 |

F. PRINCIPAL CHANGES IN 2000

- In January 2000, the Company acquired all the holdings of Koor Industries Ltd. ("Koor") in Mashav Initiating and Development Ltd. ("Mashav") in consideration for approximately NIS 890 million. As a result of the acquisition, the rate of the Company's holdings in Mashav increased to 100%.

As a result of the acquisition of full control of Mashav, the financial statements of Mashav are fully consolidated. Prior to the acquisition, the group held 50% of Mashav and its financial statements were consolidated by the proportionate consolidation method.

The excess of the cost of the investment over the equity value is NIS 361 million. Of this amount, NIS 341 million was attributed to property and the remaining NIS 20 million was attributed to goodwill.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2000 (Cont.)

Additional assets consolidated as of December 31, 2000 total NIS 1,240 million. Additional gross income and net income for the year ended December 31, 2000 is NIS 849 million and NIS 69 million, respectively.

- In January 2000, Scitex Corporation Ltd. ("Scitex"), a company held by Clal Electronics Industries Ltd. ("Clal Electronics"), signed an agreement for merger of its pre-printing operation with the Canadian company Creo Products Inc. ("Creo") in consideration for shares of Creo. After finalization of the merger in April 2000, Scitex holds 26% of the fully diluted share capital of Creo.

During 2000, Clal Electronics acquired, in the course of trading, additional shares of Scitex at a cost of approximately NIS 62 million. The excess of the cost of the investment over the equity value as a result of the said acquisition is approximately NIS 19 million. After the additional investment, the rate of Clal Electronics' holding and control in Scitex increased to approximately 22.2%.

The audited financial statements of Creo are prepared as of September 30, 2000. The financial statements of Scitex as of December 31, 2000 include Scitex's share in Creo according to the equity of Creo, based on Creo's audited financial statements as of September 30, 2000. The financial statements of the group include a provision in respect of the group's share in Creo's losses for the last quarter of 2000, according to unaudited data published by Creo on February 7, 2001. The Company's share in these losses is NIS 3.5 million.

- In March 2000, Clal Electronics converted to shares all the convertible debentures of ECI Telecom Ltd. ("ECI") which it held. The excess of the cost of the investment over the equity value as a result of the said conversion is approximately NIS 50 million. As of December 31, 2000, the rate of Clal Electronics' holding and control in ECI increased to approximately 13.8%.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2000 (Cont.)

In November 2000, the board of directors of E.C.I. decided to split the activity of E.C.I. into five separate companies. Implementation of the split is subject to receipt of the required authorizations and approvals in accordance with the law (including approval of the Israeli tax authorities to exempt the split from tax in accordance with Section 105 of the Income Tax Ordinance), the preparedness of the split companies for activity and the capital market situation. No certainty exists that the split will be implemented as planned.

- In March 2000, the Company invested an additional approximately NIS 30 million (total cost of investment approximately NIS 40 million) in Orsus Solutions Limited ("Orsus"), including goodwill in the amount of NIS 7 million. In light of the character of the investment, the goodwill is amortized over a period of five years. As of December 31, 2000 the rate of the Company's holding in Orsus is approximately 16.7%.
- In April 2000, Nova Measuring Instruments Ltd. ("Nova"), an investee company of Clal Electronics, raised approximately NIS 199 million (after deduction of issuance expenses) in the framework of an initial public offering on the NASDAQ in the United States. As a result of the issuance, the Company derived a gain of approximately NIS 21 million.

In October 2000, Clal Electronics acquired, in the course of trading, additional shares of Nova at a cost of approximately NIS 8 million. As a result of the issuance and the acquisition, the rate of Clal Electronics' holding in Nova is approximately 21.4%.

- In April 2000, Tnuva Israel Agricultural Marketing Ltd exercised call options which it held, for acquisition of its entire holding in Sunfrost (approximately 28%) in consideration for approximately NIS 16 million. As a result of the said acquisition, the company recorded a gain of approximately NIS 9 million.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

G. CONVERTIBLE SECURITIES

- (1) Options to senior employees - the group companies granted non-marketable options to their senior employees. See Note 32.
- (2) Conversion or exercise of part of the said debentures and options granted to employees is probable and therefore a provision for loss in the amount of NIS 22,537 (1999 - NIS 42,251) was included in respect thereof in consideration of an expected decrease in holding rates.

H. ATTACHED FINANCIAL STATEMENTS OF INVESTEE COMPANIES WHICH ARE NOT REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL (REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES):

Following is the effect of adjustment of the financial statements of companies reported in accordance with generally accepted accounting principles in the U.S. to generally accepted accounting principles in Israel:

1. ECI

A. Effect on Balance Sheets

| | <u>As reported</u> | <u>Adjustment</u> | <u>Balance according to Israeli GAAP</u> |
|--|-------------------------|-------------------|--|
| | <u>dollar thousands</u> | | |
| December 31, 2000 | | | |
| Current assets | 798,603 | 31,380 | 829,983 |
| Other assets | 209,477 | 2,000 | 211,477 |
| Payables | 213,444 | 56 | 213,500 |
| Capital reserve in respect of marketable securities available for sale | 1,298 | (1,298) | - |
| Retained earnings | 585,943 | 34,622 | 620,565 |
| Total shareholders' equity | 1,157,430 | 33,324 | 1,190,754 |
| December 31, 1999 | | | |
| Other assets | 149,143 | 2,000 | 151,143 |
| Capital reserve in respect of marketable securities available for sale | 11,171 | (11,171) | - |
| Retained earnings | 691,188 | 13,171 | 704,359 |
| Total shareholders' equity | 1,224,320 | 2,000 | 1,226,320 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

H. ATTACHED FINANCIAL STATEMENTS OF INVESTEE COMPANIES WHICH ARE NOT REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL (REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES) (Cont.):

1. ECI (continued)

B. Effect on Income Statements

| | <u>As reported</u> | <u>Adjustment</u> | <u>Balance according to Israeli GAAP</u> |
|---|--------------------|-------------------|--|
| Year ended December 31, 2000 | | | |
| Sales | 1,170,318 | (909) | 1,169,409 |
| Cost of sales | (719,774) | 1,925 | (717,849) |
| Selling expenses | (224,827) | 2,385 | (222,442) |
| Financing income | 25,693 | 2,028 | 27,721 |
| Other income (expenses), net | 34,635 | (11,171) | 23,464 |
| Income taxes | (416) | (730) | (1,146) |
| Cumulative effect of change in accounting method | (27,923) | 27,923 | - |
| Net income (loss) | (91,410) | 21,451 | (69,959) |
| Year ended December 31, 1999 | | | |
| Other income, net | 50,892 | 11,171 | 62,063 |
| Income taxes | (7,109) | 2,000 | (5,109) |
| Net income | 102,519 | 13,171 | 115,690 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

H. ATTACHED FINANCIAL STATEMENTS OF INVESTEE COMPANIES WHICH ARE NOT REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL (REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES) (Cont.):

C. Implementation of Israeli GAAP in respect of comparative data of E.C.I. for the year 1998 does not have a material effect.

2. Scitex

A. Effect on Balance Sheets

| | <u>As reported</u> | <u>Adjustment (1)</u> | <u>Balance according to Israeli GAAP</u> |
|--|--------------------|---------------------------|--|
| December 31, 2000 (unaudited) | | | |
| Long term investments and receivables | 394,965 | (115,025) | 279,940 |
| Capital reserve in respect of differences from translation of financial statements | 904 | 806 | 1,710 |
| Retained earnings (deficit) | 139,854 | (115,831) | 24,023 |
| Total shareholders' equity (deficit) | 507,375 | (115,025) | 392,350 |

B. Effect on Income Statements

| | <u>As reported</u> | <u>Adjustment (1)</u> | <u>Balance according to Israeli GAAP</u> |
|--|--------------------|---------------------------|--|
| Year ended December 31, 2000 | | | |
| Sales | 230,081 | (11,206) | 218,875 |
| Cost of sales | (118,322) | 5,633 | (112,689) |
| Other income, net | 199,411 | (198,486) | 925 |
| Income taxes | (34,139) | 32,554 | (1,585) |
| Equity in losses of affiliated companies, net | (79,594) | 35,065 | (44,529) |
| Cumulative effect of change in accounting method | (20,609) | 20,609 | - |
| Net income (loss) | 75,691 | (115,831) | (40,140) |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

H. (CONT.)

- (1) Mainly in respect of merger of pre-printing operation of Scitex with the Canadian company, Creo Products Inc ("Creo") by transfer of assets in consideration for shares of Creo in accordance with generally accepted accounting principles in Israel in exchange for similar assets. Accordingly, this income was eliminated in the above adjustment.
- (2) Implementation of Israeli GAAP in respect of comparative data of Scitex as of December 31, 1999 and 1998 does not have a material effect.

Note 9 - OTHER INVESTMENTS

A. COMPOSITION

| | CONSOLIDATED | | COMPANY | |
|---|--------------|---------|---------|---------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Investments in other units (nonmarketable): (1) | | | | |
| Shares and partnership units in venture capital funds (2) | 234,962 | 198,811 | 78,770 | 55,847 |
| Other companies: (3) | | | | |
| Shares | 312,345 | 154,609 | 14,731 | 26,586 |
| Convertible debentures (4) | 99,577 | 88,862 | 40,202 | 88,862 |
| Loans (5) | 8,892 | 4,050 | - | - |
| Marketable securities: | | | | |
| Shares | 369,553 | 410,933 | 124,968 | 87,237 |
| Government loans and debentures | - | 913 | - | - |
| | 1,025,329 | 858,178 | 258,671 | 258,532 |

- (1) Consolidated - After amortization in 2000 in respect of a decrease in value which is not of a temporary nature in the amount of NIS 78,850 (1999 - NIS 16,335).
- (2) Including loans in consolidation in the amount of NIS 2,353 (1999 - NIS 16,121).
- (3) Mainly in high tech and electronic sectors.
- (4) Debentures linked to the United States dollar and bearing interest at a weighted rate of 5.1% per annum.
- (5) Two loans: one in an amount of up to NIS 1,500 and one in an amount of up to NIS 7,500.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 9 - OTHER INVESTMENTS

B. INVESTMENT IN LISTED COMPANIES

| | December 31, 2000 | | | | | | | |
|---|--|---|---|--|--|---|---|--|
| | Consolidated | | | | Company | | | |
| | Amortiza- tion in respect of decrease in value | Carrying value of investment after amortization | Market value as of December 31, 2000 | Market value as of March 26, 2001 (*) | Amortiza- tion in respect of decrease in value | Carrying value of investment after amortization | Market value as of December 31, 2000 | Market value as of March 26, 2001 (*) |
| Investments in shares whose decrease in value is not of a temporary nature | | | | | | | | |
| Orckit Communication Ltd | 92,400 | 33,851 | 28,749 | 20,997 | - | - | - | - |
| Tioga Technologies Ltd | 92,900 | 28,019 | 24,960 | 15,412 | - | - | - | - |
| Vocaltec Communications Ltd | 24,300 | 19,373 | 10,739 | 9,467 | - | - | - | - |
| Viryanet Ltd | 23,600 | 53,042 | 35,859 | 21,702 | 11,850 | 21,142 | 13,547 | 8,203 |
| B.V.R. Systems Ltd | 20,200 | 35,896 | 26,252 | 14,814 | 13,750 | 22,692 | 16,608 | 12,233 |
| B.V.R. Technologies Ltd | 10,050 | 29,389 | 15,548 | 17,545 | 10,050 | 24,734 | 12,804 | 14,448 |
| Other companies | 21,550 | 13,202 | 12,462 | 12,554 | 20,100 | 12,987 | 12,132 | 12,438 |
| | <u>285,000</u> | <u>212,772</u> | <u>154,569</u> | <u>112,491</u> | <u>55,750</u> | <u>81,555</u> | <u>55,091</u> | <u>47,312</u> |
| Investment in other shares | | | | | | | | |
| Compugen Ltd | - | 56,925 | 76,924 | 48,556 | - | - | - | - |
| Ormat Industries Ltd | - | 54,701 | 93,728 | 65,997 | - | 37,539 | 60,104 | 42,618 |
| Other companies | - | 45,155 | 136,966 | 101,278 | - | 5,874 | 5,996 | 5,217 |
| | <u>-</u> | <u>156,781</u> | <u>307,618</u> | <u>215,831</u> | <u>-</u> | <u>43,413</u> | <u>66,100</u> | <u>47,835</u> |
| | <u>285,000</u> | <u>369,553</u> | <u>462,187</u> | <u>328,322</u> | <u>55,750</u> | <u>124,968</u> | <u>121,191</u> | <u>95,147</u> |

(*) Based on the number of shares held by the Company and the group companies as of December 31, 2000.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 9 - OTHER INVESTMENTS

B. INVESTMENT IN LISTED COMPANIES(Cont.)

| | December 31, 1999 | | | | | |
|---|--|---|--|--|---|----------------|
| | Consolidated | | | Company | | |
| | Carrying value of investment after provision | Market value as of December 31, 1999 | Provision in respect of decrease in value | Carrying value of investment after provision | Market value as of December 31, 1999 | |
| Investments in companies whose decrease in value is not of a temporary nature | 16,335 | 19,038 | 20,000 | 16,335 | 19,038 | 20,000 |
| Investments in other companies | - | 392,608 | 749,600 | - | 68,199 | 113,236 |
| | <u>16,335</u> | <u>411,846</u> | <u>769,600</u> | <u>16,335</u> | <u>87,237</u> | <u>133,236</u> |

C. PRINCIPAL CHANGES IN 2000

- In March 2000, Clal Electronics invested approximately NIS 51 million in debentures of Orckit Communication Ltd. ("Orckit"). The debentures are denominated in dollars, bear interest at the rate of 5.75% per annum and are repayable on April 1, 2005. The debentures are convertible to ordinary shares of Orckit according to a conversion price of approximately \$85 par value of debentures per share (subject to adjustments).

In July 2000, Orckit completed a business split of its semiconductor operations leading to the establishment of a new company, Tioga Technologies Ltd. ("Tioga"). The shares of Tioga were also listed for trading on the NASDAQ in the United States. As part of the said split, the conditions were changed for conversion of the debentures issued to Clal Electronics by Orckit so that upon their conversion Clal Electronics will receive, in addition to shares of Orckit, an identical number of shares of Tioga.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 9 - OTHER INVESTMENTS (Cont.)

C. PRINCIPAL CHANGES IN 2000 (Cont.)

- In April 2000, the group invested an additional NIS 24 million in Viryanet Ltd. ("Viryanet") by way of debentures convertible into shares of Viryanet.

In September 2000, the shares of Viryanet were listed for trading on the NASDAQ in the United States in the framework of an initial public offering. Shortly before the issuance, the said debentures were converted by the group to shares of Viryanet. In the course of the issuance, the group acquired additional shares of Viryanet in the amount of NIS 32 million.

Viryanet is engaged in development and marketing of software products which permit remote management and which are intended for service personnel and field workers.

- During 2000, Clal Electronics invested NIS 43 million in shares of Vocaltec Communications Ltd. ("Vocaltec"), for a holding of 4.9% in Vocaltec.

Vocaltec is engaged in development, manufacture and marketing of products which permit telephone communication via the Internet.

- During 2000, the Company invested approximately NIS 8 million in the Carmel Software Fund (Israel) LP Venture Capital Fund ("Carmel"). The investment was made as part of the Company's obligation to Carmel in the amount of \$10 million.
- During 2000, Clal Industries and Energy Ltd, a wholly owned subsidiary of the Company, invested approximately NIS 26 million in gas prospecting. The group may invest additional amounts in accordance with the progress of the drilling.
- During the year, Clal Venture Capital Limited Partnership Fund sold part of its investments in Breezecom (Lannair) Ltd and in Radvision Ltd in consideration for approximately NIS 12 million and approximately NIS 40 million, respectively. The Company's share in the gain is approximately NIS 6 million and approximately 21 million, respectively.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 9 - OTHER INVESTMENTS (Cont.)

C. PRINCIPAL CHANGES IN 2000 (Cont.)

- In March 2000, the Company sold 147,500 shares of B.V.R. Technologies Ltd (BVRT) in consideration for approximately NIS 11 million. The Company's gain from sale of the shares of BVRT is approximately NIS 8 million.
- In June 2000, a subsidiary, Clalcom Ltd. ("Clalcom"), sold 8.2% of the shares of Med-I Submarine Cables Ltd. ("Med-I") in consideration for approximately NIS 78 million. The Company's share in the gain included in the statement of operations is approximately NIS 52 million. After the sale, the rate of Clalcom's holding in Med-I decreased to approximately 15%.
- In July 2000, Clal Biotechnological Industries ("Clal Bio"), a wholly owned subsidiary of the Company, invested an additional approximately NIS 21 million (of a total investment of approximately NIS 57 million) in Compugen Ltd. ("Compugen"). In August 2000 Compugen raised approximately NIS 206 million in the framework of an initial public offering on the NASDAQ in the United States. After the issuance, the group's holding in Compugen decreased to 12.1%.
- In July 2000, Clal Bio received an additional NIS 7 million in respect of shares of Pharmaceutical Resources Inc., which it sold previously. The Company's share in the gain is approximately NIS 7 million.
- In October 2000, Clal Bio invested approximately NIS 40 million in shares of Sifan Semiconductors Ltd. ("Sifan"), for an investment of 2.5% in Sifan. Sifan is engaged in development of a technology for the manufacture of memory components for Flash technologies.
- In October 2000, Clal Bio invested approximately NIS 37 million in Immune Designed Molecules S.A. ("IDM"), a foreign company registered in France, in consideration for 5.6% of IDM's shares. In addition, Clal Bio was granted options for additional investments of approximately Euro 2.1 million in IDM. Assuming exercise of all the options which it holds, Clal Bio will reach a rate of holding of approximately 6.5% of the fully diluted shares of IDM.

IDM is engaged in the cell drugs sector, i.e. cells which are manipulated and injected to patients in order to strengthen their immune system against certain cancers.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 9 - OTHER INVESTMENTS (Cont.)

C. PRINCIPAL CHANGES IN 2000 (Cont.)

- In October 2000, the Company converted convertible debentures to shares of Ormat Industries Ltd. ("Ormat") and of Beit Shemesh Engine Holdings (1997) Ltd ("Beit Shemesh"). After the conversion, the group holds 14.4% of the shares of Ormat and 14.9% of the shares of Beit Shemesh. The balance of convertible debentures as of December 31, 2000 is approximately NIS 40 million.
- In November 2000, Clal Bio invested approximately \$2 million in OralScan Laboratories Inc ("OralScan"). In January 2001 Clal Bio invested an additional approximately \$10.5 million on account of an investment in shares and options of OralScan. In consideration for its investments, Clal Bio received shares entitling it to approximately 9.6% of the share capital of OralScan (approximately 11.5% fully diluted).

OralScan is engaged in the development and marketing of a diagnostic system for early disclosure of cancers of the mouth, ear, nose and throat.

D. COMMITMENTS FOR INVESTMENT IN VENTURE CAPITAL FUNDS

The group has commitments for additional investments in venture capital funds in the amount of approximately \$68 million.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 10 - FIXED ASSETS - CONSOLIDATED

A. COMPOSITION AND MOVEMENT

| | Land and buildings | Machinery, plant and equipment | Motor vehicles and trailers | Office furniture and equipment | Total |
|--|-----------------------|--------------------------------------|--------------------------------------|---|-------------------------|
| COST - | | | | | |
| As of January 1, 2000 | 727,857 | 2,658,998 | 194,113 | 126,407 | 3,707,375 |
| Adjustment of balance at beginning of year (*) | (2,690) | (10,851) | (362) | (453) | (14,356) |
| Acquisitions | 22,377 | 117,063 | 48,333 | 17,533 | 205,306 |
| Addition in respect of companies consolidated for the first time | 758,070 | 2,041,126 | 174,354 | 22,715 | 2,996,265 |
| Disposals | (9,103) | (20,784) | (32,726) | (5,257) | (67,870) |
| As of December 31, 2000 | <u>1,496,511</u> | <u>4,785,552</u> | <u>383,712</u> | <u>160,945</u> | <u>6,826,720</u> |
| ACCUMULATED DEPRECIATION - | | | | | |
| As of January 1, 2000 | 444,939 | 1,745,997 | 140,315 | 91,691 | 2,422,942 |
| Adjustment of balance at beginning of year (*) | (1,637) | (7,846) | (151) | (288) | (9,922) |
| Provision | 23,358 | 189,746 | 30,651 | 15,100 | 258,855 |
| Addition in respect of companies consolidated for the first time | 245,480 | 1,336,309 | 131,718 | 19,195 | 1,732,702 |
| Cancellation in respect of disposals | (5,318) | (8,652) | (25,654) | (3,729) | (43,353) |
| As of December 31, 2000 | <u>706,822</u> | <u>3,255,554</u> | <u>276,879</u> | <u>121,969</u> | <u>4,361,224</u> |
| NET BOOK VALUE - | | | | | |
| As of December 31, 2000 | <u><u>789,689</u></u> | <u><u>1,529,998</u></u> | <u><u>106,833</u></u> | <u><u>38,976</u></u> | <u><u>2,465,496</u></u> |

(*) In respect of differences arising from financial statements of certain investees adjusted to foreign currency, see Note 2A.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 10 - FIXED ASSETS - CONSOLIDATED (Cont.)

B. SUPPLEMENTARY INFORMATION

(1) Land and buildings include:

| | <u>Total</u> |
|---|------------------|
| Freehold land | 958,176 |
| Leasehold land (leasehold rights are for various periods ending in 2029). | 126,402 |
| Excess cost attributed to property | 340,535 |
| | <u>1,425,113</u> |
| Leasehold rights and improvements | 71,398 |
| | <u>1,496,511</u> |

Land costing NIS 328,441 is not yet registered in the name of subsidiaries in the Land Registry, principally due to incomplete registration and land parcellization procedures.

(2) Investment grants deducted from the cost of assets - NIS 194,999 (1999 - NIS 216,820).

C. DEPRECIATION

Estimated useful lives of assets used in computing depreciation are primarily:

| | <u>Years</u> |
|--------------------------------|--------------|
| Buildings | 5 - 50 |
| Machinery, plant and equipment | 3 - 22 |
| Motor vehicles and trailers | 5 - 10 |
| Office furniture and equipment | 3 - 17 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 11 - OTHER ASSETS AND DEFERRED CHARGES, NET OF AMORTIZATION

| | December 31 | | | |
|--|-------------|--|----------------|----------------|
| | | 2000 | | 1999 |
| | Cost | Accumulated depreciation or amortization | Net book value | Net book value |
| CONSOLIDATED | | | | |
| Goodwill arising on acquisition of subsidiaries: | | | | |
| Excess of cost over fair value | 169,881 | 66,271 | 103,610 | 74,327 |
| Excess of fair value over cost | 68,763 | 19,991 | 48,772 | 55,413 |
| | 101,118 | 46,280 | 54,838 | 18,914 |
| Real estate (includes buildings for rental) (*) | 189,150 | 41,072 | 148,078 | 157,050 |
| Deferred charges | 29,732 | 27,511 | 2,221 | 3,015 |
| | 320,000 | 114,863 | 205,137 | 178,979 |
| Land and equipment designated for disposal | | | 20,770 | 25,106 |
| | | | 225,907 | 204,085 |
| COMPANY | | | | |
| Real estate for rental | 13,037 | 7,679 | 5,358 | 5,796 |
| Deferred charges | 19,600 | 18,222 | 1,378 | 2,242 |
| | 32,637 | 25,901 | 6,736 | 8,038 |

(*) The annual rate of depreciation in respect of buildings for lease is 4%.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 12 - CURRENT LIABILITIES TO BANKS

| | Annual interest rate (*) % | CONSOLIDATED | | COMPANY | |
|--------------------------------------|-------------------------------------|--------------|---------|---------|---------|
| | | December 31 | | | |
| | | 2000 | 1999 | 2000 | 1999 |
| Short-term borrowings: | | | | | |
| Unlinked | 8.5 | 1,103,953 | 660,459 | 576,220 | 113,728 |
| In or linked to foreign currency | 7.0 | 477,421 | 154,070 | 254,559 | - |
| Linked to the Consumer Price Index | | - | 34,083 | - | - |
| | | 1,581,374 | 848,612 | 830,779 | 113,728 |
| Current maturities of long-term debt | | 71,564 | 90,066 | 25,658 | - |
| | | 1,652,938 | 938,678 | 856,437 | 113,728 |

(*) Average rate as of December 31, 2000

Collateral - see Note 23.

Note 13 - TRADE PAYABLES - CONSOLIDATED

| | December 31 | |
|-------------------------------|-------------|---------|
| | 2000 | 1999 |
| Open accounts | 296,091 | 203,618 |
| Checks payable | 5,092 | 7,807 |
| | 301,183 | 211,425 |
| Includes associated companies | 41 | 102 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 14 - OTHER PAYABLES

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|--------------|--------------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Payroll and related expenses | 119,828 | 97,988 | - | - |
| Advances from customers | 7,805 | 4,208 | - | - |
| Government agencies | 21,019 | 6,414 | 569 | - |
| Accrued income taxes, net of advances | 23,585 | 8,781 | 1,136 | 1,136 |
| Accrued interest | 5,269 | 6,584 | 2,021 | 3,327 |
| Liabilities with respect to acquisition of shares in associated company | - | 164,822 | - | - |
| Other payables and accrued expenses | 197,262 | 186,291 | 789 | 314 |
| | <u>374,768</u> | <u>475,088</u> | <u>4,515</u> | <u>4,777</u> |

Note 15 - OTHER CURRENT LIABILITIES

A. COMPOSITION

| | CONSOLIDATED | | Annual interest rate (*) | COMPANY | |
|--|---------------|---------------|--------------------------------|----------------|---------------|
| | December 31 | | | December 31 | |
| | 2000 | 1999 | | 2000 | 1999 |
| Investee companies: | | | | | |
| Unlinked | - | 457 | 1.9% | 131,528 | - |
| Unlinked to the U.S. dollar | - | - | 6.7% | 33,639 | - |
| IDB group Companies: | | | | | |
| Unlinked | - | 307 | | - | - |
| | <u>1,882</u> | <u>764</u> | | <u>165,167</u> | <u>-</u> |
| Current maturities of long-term liabilities | 39,026 | 62,290 | | 32,652 | 22,826 |
| | <u>40,908</u> | <u>63,054</u> | | <u>197,819</u> | <u>22,826</u> |

(*) Average rate as of December 31, 2000.

B. COLLATERAL - see Note 23.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 16 - DEBENTURES

Debentures (Series 7) are registered for trading on the Tel-Aviv Stock Exchange, bear interest at 5.5% per annum, are linked to the Consumer Price Index and are redeemable in equal annual installments of NIS 9,068 through the year 2003. The remaining balance outstanding - NIS 8,100,000 par value.

1999 - The amount in the balance sheet is net of the debentures held by a subsidiary (NIS 2,746 thousands).

Collateral - see Note 23.

Note 17 - LONG-TERM LOANS

A. COMPOSITION:

| | CONSOLIDATED | | COMPANY | |
|----------------------------|----------------|----------------|----------------|---------------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Banks | 521,874 | 235,515 | 172,492 | 63,060 |
| Companies in the IDB Group | 50,953 | 91,152 | 17,117 | 22,905 |
| Subsidiaries | - | - | 223,501 | 12,967 |
| Other | 36,517 | 18,459 | - | - |
| | <u>609,344</u> | <u>345,126</u> | <u>413,110</u> | <u>98,932</u> |
| Less - current maturities | 97,423 | 130,141 | 45,143 | 5,804 |
| | <u>511,921</u> | <u>214,985</u> | <u>367,967</u> | <u>93,128</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 17 - LONG-TERM LOANS (Cont.)

B. LINKAGE TERMS AND INTEREST RATES

| Terms of linkage or currency | CONSOLIDATED | | | COMPANY | | |
|--|-------------------------------|----------------|----------------|-------------------------------|----------------|---------------|
| | Annual interest rate (*) % | December 31 | | Annual interest rate (*) % | December 31 | |
| | | 2000 | 1999 | | 2000 | 1999 |
| Linked to the Consumer Price Index - | | | | | | |
| Banks and others | 6.1 | 300,721 | 168,252 | 6.4 | 130,870 | 20,285 |
| Companies in the IDB Group | 7.1 | 43,453 | 72,387 | 7.6 | 17,117 | 22,905 |
| Subsidiaries | | - | - | 5.7 | 13,676 | - |
| Subsidiaries | | - | - | - | 209,780 | - |
| | | <u>344,174</u> | <u>240,639</u> | | <u>371,443</u> | <u>43,190</u> |
| In or linked to foreign currency - | | | | | | |
| U.S. dollar | | | | | | |
| Banks and others | 6.7 | 192,650 | 56,243 | 6.3 | 41,622 | 42,775 |
| Other currencies | | | | | | |
| Banks and others | 5.9 | 34,368 | 26,141 | | - | - |
| | | <u>227,018</u> | <u>82,384</u> | | <u>41,622</u> | <u>42,775</u> |
| Linked to the Consumer Price Index or to the U.S. dollar, according to the lender's option | | - | 11,265 | | - | - |
| Unlinked | | | | | | |
| Banks and others | 9.3 | 25,586 | 805 | | - | - |
| Capital notes | | | | | | |
| Companies in the IDB Group | - | 7,500 | 7,500 | | - | - |
| Subsidiary | | - | - | - | 45 | 12,967 |
| Minority shareholders | - | 5,066 | 2,533 | | - | - |
| | | <u>38,152</u> | <u>10,838</u> | | <u>45</u> | <u>12,967</u> |
| | | <u>609,344</u> | <u>345,126</u> | | <u>413,110</u> | <u>98,932</u> |

(*) Average rate as of December 31, 2000.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 17 - LONG-TERM LOANS (Cont.)

C. MATURITIES AS OF DECEMBER 31, 2000

| Year | CONSOLIDATED | | | COMPANY | | | |
|---------------------------|------------------|----------------------------|----------------|----------------|----------------------------|----------------|----------------|
| | Banks and others | Companies in the IDB Group | Total | Banks | Companies in the IDB Group | Subsidiaries | Total |
| 2001 - current maturities | 71,739 | 25,684 | 97,423 | 25,658 | 5,809 | 13,676 | 45,143 |
| 2002 | 330,023 | 4,344 | 334,367 | 141,480 | 2,764 | - | 144,244 |
| 2003 | 94,117 | 4,344 | 98,461 | 5,354 | 2,764 | 209,780 | 217,898 |
| 2004 | 16,050 | 4,343 | 20,393 | - | 2,763 | - | 2,763 |
| 2005 | 8,673 | 4,738 | 13,411 | - | 3,017 | - | 3,017 |
| 2006 - 2010 | 1,472 | - | 1,472 | - | - | - | - |
| Not yet determined | 36,317 | 7,500 | 43,817 | - | - | 45 | 45 |
| | <u>558,391</u> | <u>50,953</u> | <u>609,344</u> | <u>172,492</u> | <u>17,117</u> | <u>223,501</u> | <u>413,110</u> |

D. COLLATERAL - See Note 23.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 18 - DEFERRED TAXES - CONSOLIDATED

A. COMPOSITION - DEFERRED TAXES IN RESPECT OF:

| | December 31 | |
|--|----------------|----------------|
| | 2000 | 1999 |
| Depreciable assets | 303,679 | 167,872 |
| Restatement of inventories | 2,300 | 3,119 |
| Temporary differences in recognition of income and expenses | (63,852) | (37,964) |
| Loss carryforwards (1) | (15,894) | (12,548) |
| | <u>226,233</u> | <u>120,479</u> |

- (1) In respect of losses for tax purposes of subsidiaries in the amount of NIS 51 million. Additionally, the Company has losses for tax purposes amounting to NIS 117 million and other subsidiaries have losses for tax purposes amounting to NIS 340 million, the tax benefits in respect of which will be included upon realization.
- (2) Deferred taxes are computed at the average tax rate of approximately 31% (1999 - 32%) and are presented in the balance sheet as follows:

| | December 31 | |
|--|----------------|----------------|
| | 2000 | 1999 |
| Long-term liabilities | 245,569 | 134,228 |
| Current liabilities | - | 1,266 |
| Deferred charges | - | (48) |
| Current assets - future tax benefits (*) | (19,336) | (14,967) |
| | <u>226,233</u> | <u>120,479</u> |

(*) Realization of the tax benefits is dependent upon future taxable income.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 18 - DEFERRED TAXES - CONSOLIDATED (Cont.)

B. Net movement in deferred taxes

| | For the year ended | |
|---|--------------------|----------------|
| | December 31 | |
| | 2000 | 1999 |
| Balance at beginning of year | 120,479 | 129,874 |
| Addition for company no longer consolidated | - | 223 |
| Addition in respect of company which entered into consolidation | 89,901 | - |
| Amount charged (credited) to statement of operations | 15,853 | (9,618) |
| Balance at end of year | <u>226,233</u> | <u>120,479</u> |

Note 19 - TERMINATION BENEFITS - CONSOLIDATED

- A. Substantially all Group employees have joined comprehensive pension or management insurance plans. In respect of some Group companies, the payments to the pension funds fulfill their obligation to employees as required by the Severance Pay Law. Accumulated amounts in the pension funds and with the insurance companies are not under the control or administration of the Group companies, and accordingly, neither those amounts nor the corresponding accruals for pension and severance pay are reflected in the balance sheet. The obligation of Group companies, under law and labor agreements, for termination benefits to employees not participating in pension or insurance plans, including compensation for unutilized sick leave and various other additional conditions is included in the balance sheet according to the law and labor agreements.

Amounts deposited with severance pay funds include profits accumulated to balance sheet date. The amounts deposited may be withdrawn only after fulfillment of the obligations under the Severance Pay Law and labor agreements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 19 - TERMINATION BENEFITS - CONSOLIDATED (Cont.)

B. COMPOSITION OF AMOUNTS IN BALANCE SHEET

| | December 31 | |
|--|----------------|---------------|
| | 2000 | 1999 |
| Termination benefit obligation | 184,547 | 109,160 |
| Less - deposits with severance pay funds | 65,634 | 49,484 |
| | <u>118,913</u> | <u>59,676</u> |

The above does not include deposits in excess of the obligation. Such excess is included in the consolidated balance sheet under "long-term deposits, loans and receivables" (Note 7) and consists of:

| | December 31 | |
|---|--------------|--------------|
| | 2000 | 1999 |
| Deposits with severance pay funds (includes NIS 3,710 in a severance pay fund managed by the IDB Group; 1999 - NIS 3,783) | 5,369 | 5,434 |
| Less - termination benefit obligation | 1,994 | 2,010 |
| | <u>3,375</u> | <u>3,424</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 20 - OTHER LONG-TERM LIABILITIES

| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|--------------|---------------|
| | December 31 | | | |
| | 2000 | 1999 | 2000 | 1999 |
| Excess of Company's equity in losses of investee companies over investments | 46,775 | 62,423 | - | 61,994 |
| Net liabilities with respect to commitments to implement land development works | 25,321 | 29,928 | - | - |
| Liabilities in connection with acquisition of shares of investee companies | 9,883 | - | 4,099 | - |
| | <u>81,979</u> | <u>92,351</u> | <u>4,099</u> | <u>61,994</u> |

Note 21 - CONTINGENT LIABILITIES AND COMMITMENTS

Data relating to subsidiaries consolidated by the proportionate consolidation method are stated at their full amounts.

(1) CONSOLIDATED

A. CONTINGENT LIABILITIES

Guarantees provided as of December 31, 2000, for -

| | NIS thousands |
|---------------------|------------------|
| Subsidiaries | 135,607 |
| IDB group companies | 1,562 |

Various claims (mostly legal) arising in the ordinary course of business have been filed against Group companies. Appropriate accruals for some of these claims have been made. Management of the companies' believes, on the basis of opinions of legal advisers, that these accruals are adequate to cover the anticipated losses arising from the claims.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 21 - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

A. CONTINGENT LIABILITIES (Cont.)

Certain subsidiaries are obligated to pay royalties to the Government of Israel and to the Bi-national Fund for Industrial Research and Development of Israel - U.S.A. in respect of participation in the form of grants in research, development and marketing operations of subsidiaries, for the full amount of grants received. The balance of royalties to be paid is approximately NIS 11 million.

Under the Law for the Encouragement of Capital Investments, 1959, certain subsidiaries received grants from the State of Israel in respect of their investments in the setting up or expansion of their plants (see Note 10). The grants are contingent upon fulfillment of certain conditions which, in the opinion of management, are being met. Should the subsidiaries fail to comply with these conditions, they will be required to refund the grants, together with interest from the dates on which they were received.

COLLATERAL - see Note 23.

B. COMMITMENTS

- (1) For investment in fixed assets of approximately NIS 4 million.
- (2) For the leasing of land and buildings for various periods through 2029. Anticipated lease payments for 2001 amount to approximately NIS 49 million.

For commitments to invest in companies, see Notes 8 and 9.

(2) COMPANY

CONTINGENT LIABILITIES

| | NIS thousand |
|--|-------------------------------|
| Guarantees provided as of December 31, 2000, for - | |
| Subsidiaries | 20,084 |
| Associated companies | - |
| Others | 1,562 |

The guarantees include NIS 21,584 for the benefit of companies in the IDB Group.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except for share data

Note 22 - SHARE CAPITAL

A. COMPOSITION

| | December 31 | |
|--------------------|------------------|-------------|
| | 2000 | 1999 |
| | Number of shares | |
| Authorized | 150,000,000 | 150,000,000 |
| Issued and paid-up | 140,333,644 | 140,114,009 |

Share capital comprises Ordinary shares of NIS 1 par value. All of the shares are registered for trading on the Tel-Aviv Stock Exchange.

During 2000, 219,635 Ordinary shares of NIS 1 par value were issued due to the exercise of options of Company shares.

B. EMPLOYEE OPTIONS - see Note 32.

Note 23 - LIENS

COLLATERALIZED LIABILITIES - SUBSIDIARIES

| | As of December 31 2000 NIS thousands |
|---|--|
| Current liabilities to banks and others | 106,471 |
| Long-term liabilities to banks and to others (including current maturities) | 84,755 |

COLLATERAL

Fixed charges on fixed assets of subsidiaries, including mortgaging on part of the assets of the subsidiary, including goodwill, uncalled share capital, and documents for collection, cash, notes and checks receivable deposited with banks. Floating charges on all of the assets of subsidiaries.

As collateral for the fulfillment of the requirements for the receipt of investment grants (see Note 21A), subsidiaries have recorded fixed and floating charges on their assets in an unlimited amount in favor of the State of Israel.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 23 - LIENS (CONT.)

COLLATERAL (Cont.)

As of December 31, 2000, there are liabilities of the Company, enumerated below, that are not collateralized, but regarding which the Company has undertaken to fulfill certain conditions; one such condition is to refrain from recording any lien in favor of others, or, failing this, to record a charge in favor of the lenders or the holders of its debentures:

| | <u>NIS thousands</u> |
|---|--------------------------|
| Long-term liabilities: | |
| Debentures (including current maturities) | 27,205 |
| Companies in the IDB Group | 17,117 |

Note 24 - FINANCIAL INSTRUMENTS - CONSOLIDATED

A. CREDIT RISKS

The sales of the subsidiaries are mostly to customers in Israel, the United States and countries of the European Union. The subsidiaries have balances due from 37 borrowers (which are not banks or companies of the IDB Group), none of which exceeds 5% of shareholders' equity (see Note 7D). Receivables from certain customers abroad are insured through foreign trade risk insurance. The subsidiaries monitor their receivables on an ongoing basis and include an adequate allowance for doubtful accounts.

B. CURRENCY EXPOSURE

As of December 31, 2000, the excess of monetary assets over monetary liabilities, in or linked to foreign currency, was NIS 524 million, which included an excess of current liabilities of NIS 316 million.

In addition, the excess of monetary assets over monetary liabilities, unlinked to the Consumer Price Index, was NIS 1,393 million, of which approximately NIS 1,315 million excess of current liabilities are linked to or denominated in foreign currency.

C. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of most financial instruments approximates their fair value, unless otherwise stated.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 25 - OTHER INCOME (EXPENSES), NET

| | CONSOLIDATED | | | COMPANY | | |
|--|--------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| | For the year ended December 31 | | | | | |
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Gain (loss) on disposal of investments, net (*) - | | | | | | |
| Subsidiaries | 3,999 | (17,525) | 48,887 | (5,080) | (12,724) | (6,070) |
| Associated companies | 40,778 | 542,511 | 356,634 | 4,373 | 4,790 | 144 |
| Other companies | 154,866 | 669 | 86,175 | 11,918 | 779 | - |
| Write-down of investments | (363,850) | (53,322) | (30,177) | (64,150) | (16,335) | (5,861) |
| Disposal of other assets | 6,729 | 6,457 | 4,790 | - | - | - |
| Amortization of goodwill in investee companies, net | (15,916) | (10,327) | (11,986) | - | - | - |
| Depreciation of cost of research and development in process on acquisition of investee company | - | (38,191) | (25,880) | - | (38,191) | - |
| Losses on closure and curtailment of production lines and relocation of plants | (37,259) | (23,153) | (1,533) | - | - | - |
| Other income | 7,652 | 1,658 | 9,579 | 29,252 | (2,033) | 875 |
| | <u>(192,947)</u> | <u>408,777</u> | <u>436,489</u> | <u>(23,687)</u> | <u>(63,714)</u> | <u>(10,912)</u> |
| (*) Includes net gain (loss) from changes in holdings due to issuance of shares and conversion of convertible securities - | | | | | | |
| Subsidiaries | 3,859 | (17,525) | (8,539) | (5,080) | (13,852) | (2,424) |
| Associated companies | 34,989 | 80,508 | 1,435 | (4,615) | 5,942 | - |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 26 - COST OF SALES AND SERVICES - CONSOLIDATED

| | For the year ended December 31 | | |
|---|--------------------------------|------------------|------------------|
| | 2000 | 1999 | 1998 |
| Materials used and cost of merchandise sold | 1,071,642 | 628,495 | 637,081 |
| Salaries and related expenses | 459,997 | 278,936 | 211,739 |
| Contract work | 239,163 | 67,764 | 59,522 |
| Depreciation and amortization | 224,594 | 120,368 | 127,389 |
| Research and development costs (net of grants and participations - NIS 8,765 thousands; 1999 - NIS 3,518 thousands; 1998 - NIS 10,710 thousands) | 23,913 | 14,469 | 16,430 |
| Other manufacturing expenses | 385,680 | 302,858 | 306,931 |
| | <u>2,404,989</u> | <u>1,412,890</u> | <u>1,359,092</u> |
| Changes in finished goods and work in process inventories | (41,881) | 50,435 | 21,689 |
| | <u>2,363,108</u> | <u>1,463,325</u> | <u>1,380,781</u> |

Note 27 - SELLING AND MARKETING EXPENSES - CONSOLIDATED

| | For the year ended December 31 | | |
|---------------------------------|--------------------------------|----------------|----------------|
| | 2000 | 1999 | 1998 |
| Salaries and related expenses | 115,940 | 85,095 | 75,776 |
| Advertising | 28,271 | 25,450 | 24,665 |
| Depreciation | 12,762 | 12,854 | 12,259 |
| Rental and building maintenance | 92,492 | 88,504 | 70,773 |
| Commissions and royalties | 25,273 | 23,446 | 21,469 |
| Other | 61,728 | 44,482 | 30,536 |
| | <u>336,466</u> | <u>279,831</u> | <u>235,478</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 28 - GENERAL AND ADMINISTRATIVE EXPENSES

| | CONSOLIDATED | | | COMPANY | | |
|--------------------------------------|--------------------------------|----------------|----------------|--------------|--------------|--------------|
| | For the year ended December 31 | | | | | |
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Salaries and related expenses | 107,631 | 86,101 | 83,014 | - | - | - |
| Participation in management expenses | 5,158 | 9,146 | 12,481 | 4,000 | 288 | 272 |
| Depreciation | 12,364 | 10,313 | 9,282 | 519 | 519 | 519 |
| Rental and building maintenance | 19,440 | 14,721 | 14,801 | 139 | 72 | - |
| Professional fees | 18,039 | 14,247 | 10,550 | 134 | 207 | 106 |
| Doubtful accounts | 44 | 748 | 2,269 | - | - | - |
| Other | 37,863 | 34,196 | 24,854 | 1,281 | 522 | 378 |
| | <u>200,539</u> | <u>169,472</u> | <u>157,251</u> | <u>6,073</u> | <u>1,608</u> | <u>1,275</u> |

Note 29 - FINANCING EXPENSES (INCOME), NET

| | CONSOLIDATED | | | COMPANY | | |
|--|--------------------------------|-----------------|------------|---------------|--------------|--------------|
| | For the year ended December 31 | | | | | |
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| In respect of: | | | | | | |
| Cash, loans, deposits and short-term liabilities | 124,210 | (6,858) | 18,895 | 56,102 | (2,948) | 3,073 |
| Trade receivables and payables; other receivables and payables | (1,036) | (2,499) | (3,607) | - | - | - |
| Short-term securities | 19,216 | (17,699) | 699 | 11,020 | (717) | (72) |
| Long-term loans and deposits | (3,100) | (21,092) | (44,110) | (1,979) | (3,962) | (14,354) |
| Convertible debentures | - | - | 108 | - | - | (240) |
| Debentures | 2,633 | 2,537 | 3,727 | 2,633 | 2,357 | 3,727 |
| Long-term loans | 12,959 | 18,774 | 24,700 | 7,548 | 6,295 | 9,567 |
| Forward exchange transactions | 196 | 3,370 | - | 196 | - | - |
| | <u>155,078</u> | <u>(23,467)</u> | <u>412</u> | <u>75,520</u> | <u>1,025</u> | <u>1,701</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 30 - TAXES ON INCOME

A. TAX LAWS APPLICABLE TO THE GROUP

The majority of Group companies in Israel are subject to the Income Tax Law (Inflationary Adjustments), 1985. The principal Group companies are industrial companies in conformity with the Law for the Encouragement of Industry (Taxes), 1969. The principal benefit under this law is accelerated depreciation. A number of industrial companies file consolidated tax returns.

The investments in or expansion of a number of Group plants have been accorded the status of "approved enterprise" in conformity with the Law for the Encouragement of Capital Investments, 1959. The principal benefit under this law is a reduced tax rate of 25% for prescribed periods and some of the Group plants are afforded a period of full tax exemption during the first years of the benefit. The tax benefits are conditional upon the fulfillment of the conditions determined in the letters of approval.

B. TAX EXPENSE - CONSOLIDATED

| | For the year ended December 31 | | |
|--|---------------------------------------|---------------|----------------|
| | 2000 | 1999 | 1998 |
| Current taxes | 80,235 | 57,785 | 98,705 |
| Deferred taxes | 15,853 | (9,618) | 6,801 |
| | <u>96,088</u> | <u>48,167</u> | <u>105,506</u> |
| Provisions for (cancellation of) taxes in respect of previous years, net | 654 | (344) | 693 |
| | <u>96,742</u> | <u>47,823</u> | <u>106,199</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 30 - TAXES ON INCOME (Cont.)

C. EFFECTIVE TAX

The difference between income taxes computed on income before taxes at regular tax rates and the income tax expense in the financial statements is explained as follows:

| | CONSOLIDATED | | | COMPANY | | |
|--|--------------------------------|---------------|----------------|----------|-----------|-----------|
| | For the year ended December 31 | | | | | |
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Taxes computed at regular tax rate of 36% | (43,264) | 284,398 | 204,525 | (31,622) | 154,234 | 107,005 |
| Increase (decrease) in tax liability due to: | | | | | | |
| Losses and tax benefits not utilized | 36,452 | 31,674 | 32,844 | 39,510 | 11,301 | 4,813 |
| Utilization of carryforward losses and tax benefits | (13,943) | (5,481) | (11,797) | - | - | - |
| Income included net of tax, income exempt from tax, non-deductible expenses (*) or income subject to reduced tax rates | 122,313 | (244,851) | (131,474) | (7,888) | (165,535) | (111,818) |
| Reduced tax rate for approved enterprises | (48,111) | (28,528) | (4,572) | - | - | - |
| Differences in definition of capital and assets for tax purposes | 31,740 | 5,896 | 11,652 | - | - | - |
| Non-deductible expenses | 6,572 | 5,347 | 1,470 | - | - | - |
| Purchasing power loss on advance tax payments | (69) | 278 | 2,367 | - | - | - |
| Other differences | 4,398 | (566) | 491 | - | - | - |
| | <u>96,088</u> | <u>48,167</u> | <u>105,506</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(*) Primarily equity in net earnings of investee companies, net of related taxes, and losses (gains) on the sale of marketable securities and write-offs with respect to decrease in value of investments.

D. FINAL TAX ASSESSMENTS

The Company has paid self assessment up to and including 1996. Principal subsidiaries have received final assessments (including self assessments which are considered to be final) for years ranging from 1994 through 1999.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 31 - RELATED PARTIES

A. Group companies conduct transactions during the ordinary course of business with entities that are related parties, among others. The Securities Authority has exempted the Company from providing a description of such transactions with related parties of IDB (Israel) Ltd. and their investee companies in the ordinary course of business.

B. Data on balances with related parties in the consolidated balance sheets are as follows (*):

| | December 31 | |
|--|--------------------|-------------|
| | 2000 | 1999 |
| (1) Banks | | |
| Assets: | | |
| Short-term investments | - | 105,405 |
| Loans and deposits | 33,374 | 69,549 |
| Liabilities: | | |
| Current liabilities | 633,927 | 540,696 |
| Long-term liabilities (see Note 17) | 340,171 | 111,564 |
| (2) Others | | |
| Assets: | | |
| Short-term investments - Marketable securities of companies in the IDB Group | | |
| Shares and convertible debentures | - | 521 |
| Debentures | - | 175 |
| Short-term loans | 16,251 | 77,388 |
| Other receivables | 740 | 2,436 |
| Other investments - debentures | - | 525 |
| Deposits, long-term loans and receivables | | |
| Long-term loans (see Note 7) | 14,048 | 50,147 |
| Liabilities: | | |
| Other payables and accrued expenses | 1,574 | 2,791 |
| Other current liabilities | 1,882 | 307 |
| Long-term liabilities (see Note 17) | | |
| Capital notes | 7,500 | 7,500 |
| Other | 43,453 | 83,652 |

(*) Data on highest balances for the year are not included since it is impracticable to provide.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 31 - RELATED PARTIES (Cont.)

- C. A subsidiary participates in the expenses of a IDB Group company in the amount of NIS 2,013 (1999 - NIS 5,601; 1998 - NIS 8,940).
- D. Remuneration of directors and general manager (included in the consolidated and Company statements of operations)

| | For the year ended | | |
|--|--------------------|-------|-------|
| | December 31 | | |
| | 2000 | 1999 | 1998 |
| Remuneration of directors; (9 directors) | 472 | 409 | 345 |
| Compensation of former General Manager | 7,259 | 4,361 | 2,824 |

Regarding stock options granted to the General Manager and former General Manager, see Note 32.

Loan to the General Manager through a IDB Group company - NIS 683 as of December 31, 2000 (1999 - NIS 782), the highest amount in 2000 - NIS 782.

- E. The Company's articles of association allow indemnification and insurance of Company officers as provided by law. The Company established an indemnification policy and provides insurance in respect of responsibilities of officers, subject to provisions of law and additional restrictions.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS

A. OPTIONS GRANTED BY THE PARENT COMPANY

In the plan of August 1997, Clal (Israel) Ltd. granted to the former General Manager of the Company, without consideration, up to 12,510 options convertible to 1,251,000 shares of NIS 0.01 par value of Clal (Israel) Ltd., which was the parent company of the Company. The economic value of the options granted to a former general manager of the Company (as of the date of approval of the plan) is approximately NIS 700. As a result of the merger of Clal with IDB, the conditions of the options were changed so that they may be converted to shares in accordance with the original terms. As of December 31, 2000, 4,026 options were not yet exercised.

The options may be exercised through October 8, 2004.

Regarding the manner in which shares will be issued, see B. below.

B. OPTIONS GRANTED BY THE COMPANY

(1) August 1997 plan

In August 1997, the Board of Directors of the Company approved a plan whereby senior employees in the Group will be granted, without consideration, up to 876,000 options convertible up to 876,000 Ordinary shares of NIS 1 par value of the Company (subject to adjustments). This includes 150,000 options granted to the former General Manager. The amount of original options decreased due to the resignation of certain employees, the exercise rights of whom were frozen. Furthermore, during 2000 options were exercised and as of December 31, 2000, 242,000 remained. The options are exercisable at prices linked to the rate of exchange of the U.S. dollar.

- The first portion of 292,000 options were granted on October 8, 1997 and are exercisable commencing October 8, 2000 for a period of three years. The exercise price will be determined based on the average price of the Company's shares on the Tel-Aviv Stock Exchange during the 90 trading days preceding the date of approval of the plan by the Board of Directors, less a discount of 10%.
- The second portion of 292,000 options were granted on October 8, 1998 and are exercisable commencing October 8, 2000 for a period of three years. The exercise price will be determined based on the average price of the Company's shares on the Tel-Aviv Stock Exchange - in the seven days of trading preceding the date of the granting of the options.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(1) August 1997 plan (Cont.)

The third portion of 217,000 were granted on October 8, 1999 and are exercisable commencing October 8, 2001 for a period of three years. The exercise price will be determined in accordance with that of the first portion.

Upon exercise of the options, the option holders will not be granted the entire number of shares based on the options exercised, but rather shares reflecting the benefit component of the options exercised, as calculated at the exercise date. The benefit component will be determined based on the difference between the value of the shares which the Company would allocate to the option holders at the time of exercise based on market price at that date, and the exercise price of the options as described in the previous paragraph. In respect of options exercised, the Company will allocate to the option holders shares whose value on the Stock Exchange at the date of exercise equals the benefit component, in consideration for their par value only.

The economic value of each option is NIS 10.22. This economic value was calculated using the Black - Scholes option-pricing model, taking into consideration the price of the Company's shares on the Stock Exchange at the time of the authorization of the plan by the Board of Directors of the Company, and a weekly standard deviation of 3.7%.

The aggregate economic value of the options (as of the date the options were exercised) as described above, amounts to NIS 9 million. Of this, NIS 1.5 million relates to a former general manager of the Company.

The plans are implemented in accordance with section 102 of the Income Tax Ordinance.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(2) January 2001 Plan

After balance sheet date, on January 13, 2001, the board of directors of the Company decided to approve a plan according to which senior officers in the Company will be granted, without consideration, up to 1,370,134 options convertible to up to 1,370,134 ordinary shares of NIS 1 par value each of the Company (subject to adjustments), of which 402,685 options to the general manager of the Company. The options may be exercised at prices linked to the known consumer price index as of the date of the actual exercise.

The options may be exercised in four equal portions. The first portion may be exercised during two years from the end of two years from the date of the grant of the options. The second portion may be exercised during two years from the end of three years from the date of the grant of the options. The third portion may be exercised during two years from the end of four years from the date of the grant of the options and the fourth portion may be exercised during two years from the end of five years from the date of the grant of the options.

According to the plan, the exercise price of the first portion ("the basic exercise price") will be the average closing price of the shares in the 30 days of trading preceding the decision of the board of directors regarding approval of the plan less 10%.

The exercise price of the second, third and fourth portions will be determined according to the lower of the average closing price of the shares in the 30 days of trading preceding the end of the first, second and third year, respectively, from the date of the grant of the options less 10% or the basic exercise price with the addition of linkage differences to the consumer price index.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(2) January 2001 Plan (Cont.)

Regarding the method of calculating the number of shares to be issued - see paragraph 1(1) above.

Economic value of the options:

| <u>Portion</u> | <u>NIS</u> |
|----------------|------------|
| First | 12.65 |
| Second | 14.28 |
| Third | 15.70 |
| Fourth | 16.97 |

This economic value was calculated according to the Black - Scholes option pricing model, taking into account the price of the Company's shares on the stock Exchange on the date of approval of the plan by the board of directors of the Company and a weekly standard deviation of 6.14%.

The options will be allocated upon receipt of all the required authorizations and approvals.

The total economic value of the options (as of the date of approval of the plan), as stated above, is approximately NIS 20.4 million, of which NIS 6 million of options related to the general manager of the Company.

The plan is implemented in accordance with Section 102 of the Income Tax Ordinance.

C. OPTIONS GRANTED BY CEI

- (1) In the plan of September 1997, Clal Electronics granted to the former General Manger of the Company, without consideration, up to 2,562 options to purchase up to 2,562 Ordinary shares of NIS 1 par value of Clal Electronics. The options were granted in three equal portions: the first portion was granted in November 1997, following the approval of the plan by the shareholders of Clal Electronics (the determination date). The second portion was granted in November 1998, and the third portion was granted in November 1999.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

C. OPTIONS GRANTED BY CEI (Cont.)

(1) (Cont.)

The options are exercisable for a period of three years, commencing two years after the date of the grant. The economic value of the options granted to a former general manager of the Company (as of the date of approval of the plan) is approximately NIS 600. During the year 2000 options were exercised so that the balance of remaining options as of December 31, 2000 is 1,708 options.

Regarding the method of calculating the number of shares to be issued - see paragraph B(1) above.

- (2) In the plan of January 2000, Clal Electronics granted to the former general manager of the Company, without consideration, an option to acquire up to 100,000 shares in Scitex, held by Clal Electronics. The option is exercisable, in part or in full, during a period of three years from the date the option was granted. The exercise price of the option is U.S.\$14.00 for each share. The market rate of an ordinary share in Scitex as of the date of the approval of the plan was U.S.\$14.375.
- (3) According to a plan from January 2001, Clal Electronics granted to its general manager, without consideration, up to 9,920 options convertible to up to 9,920 shares of NIS 1 par value of Clal Electronics. The options are convertible in four equal portions. The first portion may be exercised during two years from the end of two years from the date of the grant of the options. The second portion may be exercised during two years from the end of three years from the date of the grant of the options. The third portion may be exercised during two years from the end of four years from the date of the grant of the options and the fourth portion may be exercised during two years from the end of five years from the date of the grant of the options. The economic value of the options granted to the general manager of the Company (as of the date of approval of the plan) is approximately NIS 2 million.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

D. Data in respect of Company share prices on the Stock Exchange on the dates relating to the abovementioned plans and the exercise prices of the shares granted in the context of the plans are as follows:

Options granted by the parent company, the Company and CEI (prices in shekels)

| | Parent company | Company | | Clal Electronics Industries | |
|--|--------------------------------|------------------------|-----------------------|---|--------------------------|
| | Options for shares of Clal (*) | | | Options for shares of Clal Electronics Industries | |
| | Plan from August 1997 | Plan from January 2001 | Plan from August 1997 | Plan from January 2001 | Plan from September 1997 |
| | | | <u>NIS</u> | | |
| Share prices on the Stock Exchange: | | | | | |
| On date plan was approved by the Parent company's Board of Directors | 122.20 | 30.05 | 22.79 | 403.90 | 506.09 |
| On date portions were granted: | | | | | |
| First portion | - | - | 22.66 | 350.00 | 571.18 |
| Second portion | - | - | 20.66 | - | 594.63 |
| Third portion | 130.46 | - | 29.44 | - | 699.00 |
| Exercise price of the portions: | | | | | |
| First portion | - | 31.44 | 18.99 | 477.00 | 498.40 |
| Second portion | - | - | 17.66 | - | 498.40 |
| Third portion | 109.92 | - | 18.99 | - | 498.40 |

(*) During the year 2000, the conditions of the options were changed so that they may be converted to shares of IDB - see paragraph A above.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 33 - BUSINESS SEGMENTS

Group companies engage in various business segments, primarily in the manufacturing and marketing of industrial and high technology products. Part of the operations is fully reflected in the consolidated financial statements, while another part is carried out through associated companies which are presented in the financial statements as investments and the Group's equity in their activities. Segment information is as follows:

A. REVENUES FROM SALES AND SERVICES

| | For the year ended December 31 | | | | | | | | |
|-------------------------------------|--------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|----------------|------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | Domestic | Foreign | Total | Domestic | Foreign | Total | Domestic | Foreign | Total |
| Cement | 1,251,296 | - | 1,251,296 | 719,133 | - | 719,133 | 779,064 | - | 779,064 |
| Textiles | 651,684 | 577,600 | 1,229,284 | 610,178 | 368,016 | 978,194 | 528,863 | 113,440 | 642,303 |
| High-tech and electronics | 5,083 | 80,531 | 85,614 | 5,950 | 69,291 | 75,241 | 14,632 | 71,475 | 86,107 |
| Communication services | 16,521 | - | 16,521 | 12,506 | - | 12,506 | 8,442 | - | 8,442 |
| Other industries | 641,006 | - | 641,006 | 317,803 | - | 317,803 | 364,080 | 14,428 | 378,508 |
| | <u>2,565,590</u> | <u>658,131</u> | <u>3,223,721</u> | <u>1,665,570</u> | <u>437,307</u> | <u>2,102,877</u> | <u>1,695,081</u> | <u>199,343</u> | <u>1,894,424</u> |
| Foreign sales by geographical area: | | | | | | | | | |
| North America | | 216,178 | | | 155,558 | | | 95,544 | |
| Europe | | 401,961 | | | 222,153 | | | 62,603 | |
| Other countries | | 39,992 | | | 59,596 | | | 41,196 | |
| | | <u>658,131</u> | | | <u>437,307</u> | | | <u>199,343</u> | |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 33 - BUSINESS SEGMENTS (Cont.)

B. OPERATING PROFIT OF SUBSIDIARIES AND GROUP EQUITY IN THE EARNINGS OF ASSOCIATED COMPANIES

| | For the year ended December 31 | | | | | |
|---------------------------|---------------------------------|---|---------------------------------|---|---------------------------------|---|
| | 2000 | | 1999 | | 1998 | |
| | Segment operating profit (loss) | Group equity in net earnings (losses) of associated companies | Segment operating profit (loss) | Group equity in net earnings (losses) of associated companies | Segment operating profit (loss) | Group equity in net earnings (losses) of associated companies |
| Cement | 242,150 | - | 132,503 | - | 117,253 | - |
| Textiles | 19,414 | - | 25,335 | 13,270 | (201) | (28,359) |
| High-tech and electronics | (306,774) | (138,762) | 493,883 | 116,520 | 441,123 | 58,062 |
| Paper and cardboard | - | 29,487 | - | 23,746 | - | 21,992 |
| Communication services | 72,878 | 15,419 | 837 | 8,516 | (2,464) | (78,971) |
| Venture capital funds | 34,251 | - | (12,909) | - | (26,266) | (184) |
| Biotechnology | (4,357) | (8,026) | (1,302) | (3,461) | (435) | (805) |
| Other industries | 73,099 | 6,120 | (39,321) | 8,911 | 28,393 | 39,396 |
| | <u>130,661</u> | <u>(95,762)</u> | <u>599,026</u> | <u>167,502</u> | <u>557,403</u> | <u>11,131</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 33 - BUSINESS SEGMENTS (Cont.)

C. SEGMENT ASSETS EMPLOYED

| | December 31 | | | | | |
|--|------------------|-------------------------------------|------------------|------------------|-------------------------------------|------------------|
| | 2000 | | | 1999 | | |
| | Segment assets | Investments in associated companies | Total | Segment assets | Investments in associated companies | Total |
| Cement | 2,023,066 | - | 2,023,066 | 1,073,531 | - | 1,073,531 |
| Textiles | 1,011,606 | - | 1,011,606 | 1,098,953 | - | 1,098,953 |
| High-tech and electronics | 700,792 | 1,502,729 | 2,203,521 | 512,759 | 1,514,911 | 2,027,670 |
| Paper and cardboard | - | 210,828 | 210,828 | - | 205,831 | 205,831 |
| Communication services | 14,486 | - | 14,486 | 7,695 | - | 7,695 |
| Venture capital funds | 259,458 | - | 259,458 | 208,587 | - | 208,587 |
| Biotechnology | 115,322 | 22,803 | 138,125 | 39,319 | 21,325 | 60,644 |
| Other industries (including assets serving all segments) | 1,030,327 | 164,724 | 1,195,051 | 1,371,278 | 189,271 | 1,560,549 |
| | <u>5,155,057</u> | <u>1,901,084</u> | <u>7,056,141</u> | <u>4,312,122</u> | <u>1,931,338</u> | <u>6,243,460</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In thousands of shekels of December 2000

Note 34 - EARNINGS PER SHARE

| | For the year ended | | |
|---|--------------------|----------------|----------------|
| | December 31 | | |
| | 2000 | 1999 | 1998 |
| Number of shares and net income used in computing earnings per share: | | | |
| Number of shares used in calculation of earnings per share (in thousands) (*) | <u>140,450</u> | <u>140,347</u> | <u>140,030</u> |
| Net income (loss) used in computation | <u>(87,838)</u> | <u>428,429</u> | <u>297,236</u> |

Information as to fully diluted earnings per share from previous years was not provided, as there is no material difference between the primary and fully-diluted earnings per share.

(*) Includes addition for convertible securities.

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CLAL INDUSTRIES AND INVESTMENTS LTD.

COMPANY FINANCIAL STATEMENT DATA IN NOMINAL VALUES

In thousands of shekels

Appendix A to the Financial Statements

A. CONDENSED BALANCE SHEETS

| | December 31 | |
|--|--------------------|-------------|
| | 2000 | 1999 |
| Investments in investee companies and others | 4,153,516 | 2,712,120 |
| Other assets and deferred charges | 1,169 | 1,503 |
| Monetary items, net | (1,374,085) | (9,042) |
| Shareholders' equity, see C below | 2,780,600 | 2,704,581 |

B. STATEMENTS OF OPERATIONS

| | For the year ended December 31 | | |
|--|---------------------------------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| REVENUES | | | |
| Equity in net earnings of investee companies | 154,540 | 521,758 | 460,200 |
| Other income, net | 8,043 | 2,977 | 8,641 |
| | 162,583 | 524,735 | 468,841 |
| COST AND EXPENSES | | | |
| General and administrative expenses | 5,602 | 1,134 | 769 |
| Financing expenses | 81,179 | 12,285 | 15,445 |
| | 86,781 | 13,419 | 16,214 |
| Income from continuing operations | 75,802 | 511,316 | 452,627 |
| Income from discontinued segment operations | - | - | 137,704 |
| Net income | 75,802 | 511,316 | 590,331 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

COMPANY FINANCIAL STATEMENT DATA IN NOMINAL VALUES

In thousands of shekels

Appendix A to the Financial Statements (Cont.)

C. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | <u>Share capital</u> | <u>Capital reserves</u> | <u>Retained earnings</u> | <u>Total</u> |
|---|--------------------------|-----------------------------|------------------------------|------------------|
| Balance as of January 1, 1998 | 139,739 | 134,594 | 1,882,354 | 2,156,687 |
| Conversion of convertible debentures into shares | 291 | 5,597 | - | 5,888 |
| Dividend | - | - | (400,000) | (400,000) |
| Net income | - | - | 590,331 | 590,331 |
| Balance as of January 1, 1999 | 140,030 | 140,191 | 2,072,685 | 2,352,906 |
| Conversion of convertible debentures into shares | 84 | 278 | - | 362 |
| Dividend | - | - | (160,003) | (160,003) |
| Net income | - | - | 511,316 | 511,316 |
| Balance as of January 1, 2000 | 140,114 | 140,469 | 2,423,998 | 2,704,581 |
| Realization of options into shares | 217 | - | - | 217 |
| Net income | - | - | 75,802 | 75,802 |
| Balance as of December 31, 2000 | <u>140,331</u> | <u>140,469</u> | <u>2,499,800</u> | <u>2,780,600</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

Appendix B
to the Financial Statements (Cont.)

PRINCIPAL INVESTEE COMPANIES

| Name of Company | Holding Company (1) | Ownership and control % |
|--|--|----------------------------------|
| American Israeli Paper Mills Ltd. | Clal Industries and Investments Ltd. | 33.2 |
| Applied Radiation - Jordan Valley Ltd. | Clal Electronics Industries Ltd. | 57.1 |
| Aprion Digital Ltd. | Clal Electronics Industries Ltd. | 24.9 |
| Bagir (1961) Ltd. | Polgat Ltd. | 100.0 |
| Barak I.T.C. (1996) - The International Telecommunication Services Corp. | Clalcom (1996) I.S. Ltd. | 44.0 |
| Cargal Ltd. | Clal Industries and Investments Ltd. | 27.4 |
| Clal Biotechnology Industry Ltd. | Clal Industries and Investments Ltd. | 100.0 |
| Clal Central Industrial Financing (1962) Ltd. | Clal Industries and Investments Ltd. | 100.0 |
| Clalcom Ltd. | Clal Industries and Investments Ltd. | 72.7 |
| Clal Electronics Industries Ltd. | Clal Industries and Investments Ltd. | 59 |
| Clal Industrial Future Technology Management - Neta Ltd. | Clal Industries and Investments Ltd. | 100.0 |
| Clal Venture Capital Fund - limited partnership | Clal Industries and Investments Ltd. Clal Electronics Industries Ltd. | 33.3 33.3 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

Appendix B
to the Financial Statements (Cont.)

PRINCIPAL INVESTEE COMPANIES

| Name of Company | Holding Company (1) | Ownership and control % |
|--|--|--|
| D-Pharm Ltd. | Clal Industries and Investments Ltd. | 20.5 |
| ECI Telecom Ltd. | Clal Electronics Industries Ltd. | 13.8 |
| Fundtech Ltd. | Clal Industries and Investments Ltd. | 26.9 |
| Golf Kitan Fashion House Ltd. | Kitan Consolidated Ltd. | 100.0 |
| Infinity Israel Venture Capital Fund (Israel) (limited partnership) | Clal Electronics Industries Ltd. | 59.3 |
| | Clal Industries and Investments Ltd. | 39.5 |
| International Technologies (Lasers) Ltd. | Clal Electronics Industries Ltd. | 74.2 |
| Jaf-Ora Ltd. | Clal Industries and Investments Ltd. | 27.5 |
| K.B.A. Townbuilders Group Ltd. | Clal Industries and Investments Ltd. | 52.9 |
| Kitan Consolidated Ltd. | Clal Industries and Investments Ltd. | 100.0 |
| Maman-Cargo Terminals and Handling Ltd. | Taavura Cement Containers Ltd. | 12.7 |
| | Multiples Investments and Developments Ltd. | 26.0 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

Appendix B
to the Financial Statements (Cont.)

PRINCIPAL INVESTEE COMPANIES

| Name of Company | Holding Company (1) | Ownership and control % |
|--|--|----------------------------------|
| Mashav Initiating and Development Ltd. | Clal Industries and Investments Ltd. | 100.0 |
| Millennium Materials Technologies Funds L.P. | Clal Industries and Investments Ltd. | 50.0 |
| Mivtach Shamir Holdings Ltd. | Clal Industries and Investments Ltd. | 14.8 |
| Millennium Materials Technologies Funds L.P. | | 19.2 |
| Multiples Investments and Developments Ltd. | Taavura Cement Containers Ltd. | 88.5 |
| Nesher Israeli Cement Enterprises Ltd. | Mashav Initiating and Development Ltd. | 100.0 |
| Nova Measuring Instruments Ltd. | Clal Electronics Industries Ltd. | 21.4 |
| Orsus Solutions Ltd. | Clal Industries and Investments Ltd. | 16.7 |
| Polgat Ltd. | Clal Industries and Investments Ltd. | 67.4 |
| Polgat Textiles (1960) Ltd. | Polgat Ltd. | 100.0 |
| Scitex Corporation Ltd. | Clal Electronics Industries Ltd. | 22.2 |
| Taavura Cement Containers Ltd. | Mashav Initiating and Development Ltd. | 50.0 |
| Tango Ltd. | Kitan Consolidated Ltd. | 100.0 |

(1) Directly or indirectly. Holdings of subsidiaries consolidated by proportionate consolidation reflect the entire interest.