

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

AS OF DECEMBER 31, 2001

1. *Description of Company*

Clal Industries and Investments Ltd. (“the Company”) (“CII”) is an investment company, whose principal holdings are in the manufacturing and high-technology sectors. The Company is controlled by IDB Development Corporation Ltd.

The Company 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, particularly so when it is the largest investor. The Company has access to a range of commercial opportunities, remaining constantly alert for investments with high potential returns. Simultaneously, the Company aspires to enhance the value of its existing investments, with a view to realizing those investments at the appropriate time.

The CII group of companies is engaged in a variety of segments, which primarily include: cement, textiles, high-technology and electronics, paper and cardboard, biotechnology, communications, and the management of venture capital funds.

On May 21, 2001, the Company entered into a share exchange merger agreement with a subsidiary, Clal Electronic Industries Ltd. (“CEI”) (“the merger agreement”). Under the terms of the merger agreement, the shareholders of CEI (other than the Company) transferred all their shares to the Company, such that, subsequent to the merger, the Company now holds all of the shares of CEI. The Company’s Board of Directors approved the rate of the share exchange, insofar as the Company issued twelve of its shares for each share of CEI transferred to the Company (as proposed by a joint appraiser). The Company also obtained a further opinion with respect to the fairness of the consideration from the Company’s perspective.

On June 20, 2001, the merger agreement was approved by the shareholders of the Company and CEI in general meeting, and on July 17, 2001, the merger between the Company and CEI was completed. Upon completion of the merger, the Company now holds all the shares of CEI, which have accordingly ceased to be traded on the Stock Exchange.

The Company’s operating results are affected, to a significant extent, by capital gains and write-offs. Accordingly, significant fluctuation is likely in the Company’s results as between the various reporting periods.

The Company’s operations are implemented through subsidiaries (companies in which the Group holds, either directly or indirectly, at least 50% of the rights in those companies), through associated companies (companies in which the Group exercises considerable influence, and which are incorporated in the financial statements on the equity basis), and through other companies wherein the Company does not exercise considerable influence and the investment in which is reflected in the financial statements on the cost basis.

For information relating to the many external factors affecting the Group's operations, see paragraph 8 below.

The Group's principal sectors of operations are as follows⁽¹⁾:

Cement – the principal company in this sector is Neshor Israel Cement Works Ltd. (“Neshor”). Neshor is wholly owned by Mashav Initiating and Development Ltd. (“Mashav”), a holding company which is 75%-owned by the Group.

Textiles – this sector includes Kitan Consolidated Ltd. (“Kitan”) (wholly-owned) and Polgat Ltd. (“Polgat”) (71%-owned).

High-technology and Electronics – this sector includes E.C.I. Telecom Ltd. (“ECI”) (16%-owned), Scitex Corporation Ltd. (“Scitex”) (22%-owned), Fundtech Ltd. (“Fundtech”) (29%-owned), Applied Radiation – Jordan Valley Ltd. (57%-owned) and Aprion Digital Ltd. (15%-owned).

Paper and Cardboard – this sector includes American-Israel Paper Mills Ltd. (“AIPM”) (33%-owned) and Kargal Ltd. (27%-owned).

Biotechnology – operations in this sector are implemented through Clal Biotechnological Industries Ltd. (“CBI”), a wholly-owned subsidiary whose holdings include D-Pharm Ltd. (“D-Pharm”) (27%-owned), Compugen Ltd. (12%-owned), Immune Designed Molecules S.A. (6%-owned) and Oralscan Laboratories Inc. (“Oralscan”) (10%-owned).

Telecommunications – operations in this sector are implemented through Clalcom Ltd. (72%-owned), whose indirect holdings include Barak I.T.C. (1995) – International Telecommunications Services Ltd. (“Barak”) (44%-owned), Med-1 Underwater Telecommunications Cables Ltd. (15%-owned) and Mediterranean Nautilus Ltd. (15%-owned).

Venture Capital Funds – this sector includes venture capital funds, a number of which are managed by the Clal Industries Group, some in partnership with Group companies, and some through other avenues. The funds in this sector include Clal Venture Capital Fund (67%-owned), Infinity Israel Fund and Infinity Israel Fund II (31 and 47%-owned, respectively), Millennium Fund and Millennium Fund II (50 and 14%-owned, respectively), Harvest Fund (20%-owned) and Carmel Fund (6%-owned).

Miscellaneous – this group includes K.B.A. Townbuilders Group Ltd. (“KBA”) (53%-owned), which operates in Ashdod in the construction and real estate sector; Jaf-Ora Ltd. (“Jaf-Ora”) (30%-owned), which is engaged in the manufacture and marketing of soft drinks; Ta'avura Cement Containers Ltd. (“Ta'avura”) (37%-owned), which operates primarily in the transportation field; and Mivtach Shamir Holdings Ltd. (15%-owned), a holding company with investments in the technology, finance and real estate sectors.

(1) The data relate to the degree of holding as of December 31, 2001. Details of percentage shareholdings provided in this report have been rounded to the nearest whole number, unless otherwise indicated or unless figures are provided after the decimal point.

2. *The financial position*

Assets reflected in the Company's consolidated balance sheet as of December 31, 2001 totaled NIS 5,608 million, as compared to NIS 7,155 million as of December 31, 2000. The decrease in assets is primarily attributable to the investments item. The decrease stems from the Company's equity in the losses of associated companies and from write-downs in the values of investments in relation to non-temporary declines in value. The decrease in assets is also due to the transition to proportional consolidation of 75% of the assets of Mashav.

Group companies are engaged in extensive multinational operations. Most of the companies engage in hedging transactions with respect to their foreign currency balances, whilst some seek currency equalization by matching expenses to income in the same currency. The above notwithstanding, the Group is unable to arrange for complete protection from exposure (see paragraph 9 below).

Most Group companies adjust their financial statements in order to reflect the changes in the Consumer Price Index. Certain investee companies adjust their financial statements by reference to the changes in the exchange rate of the U.S. dollar.

3. *Operating results*

A. Statement of operations

The Company's loss in 2001 amounted to NIS 669 million, as compared to a loss of NIS 89 million in the previous year and a profit of NIS 434 million in 1999.

Following declines in value which were not temporary in nature, write-downs were made in the value of certain investments during the course of the year. The write-downs related principally to the investments in ECI, Fundtech, Scitex, CEI, Variant and Tioga. These write-downs increased the loss for the year by NIS 490 million (see Notes 8 and 9 to the financial statements).

The loss for the year includes net negative non-recurring factors amounting to NIS 519 million, attributable principally to the write-downs referred to above, eliminations of investments made in the financial statements of investee companies – ECI (NIS 127 million); Scitex and Creo (NIS 87 million); Polgat (NIS 43 million) and Fundtech (NIS 21 million), and the loss arising on the dilution of the holding in ECI (NIS 29 million). These negative factors were partly offset by the capital gain arising on the sale of 25% of Mashav (NIS 259 million) and the gain arising on the disposal of shares in Pharmaceutical Resources Inc. ("PRI") (NIS 46 million) (in the previous year, net negative non-recurring factors amounted to NIS 152 million).

The decrease in earnings for the year, without taking account of the non-recurring factors, stems mainly from the increase in venture capital fund losses in the wake of adjustments to the book values of investments, the increase in the losses of ECI, the decline in the profitability of Mashav, the decrease in the Company's share of Mashav, and the transition to loss-making in Fundtech.

The Company's loss in the fourth quarter amounted to NIS 239 million, as compared to a loss of NIS 291 million in the corresponding period of the previous year. The loss for the quarter includes net negative non-recurring factors totaling NIS 205 million (NIS 261 million for the corresponding quarter of the previous year).

The decrease in profit for the quarter, without taking account of the non-recurring factors, stems mainly from the increase in venture capital fund losses in the wake of adjustments to the book values of investments, the decrease in the Company's share of Mashav, and the transition to loss-making in Fundtech. These factors were mostly offset by the reduction in losses of ECI and the decrease in financing expenses.

The loss per NIS 1 share in 2001 was NIS 4.52, as compared to a loss of NIS 0.64 for the previous year and a gain of NIS 3.10 for 1999.

B. Shareholders' equity

As of December 31, 2001, the Company's shareholders' equity totaled NIS 2,830 million, as compared to NIS 3,045 million at the end of the previous year. The changes in shareholders' equity during the year were attributable to the loss of NIS 669 million, the share issuance with respect to the merger with CEI amounting to NIS 350 million, and the increase in the amount of the adjustments stemming from the translation of the financial statements of investee companies (dollar capital reserve), which totaled NIS 104 million.

C. Data relating to principal investee companies

We set out below 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 | |
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Mashav | 1,450 | 1,675 | 340 | 359 | 125 | 145 | 24 | 18 |
| Kitan | 806 | 762 | 216 | 210 | 31 | 9 | 10 | (10) |
| ECI | 4,481 | 5,168 | 1,028 | 1,352 | (1,821) | (404) | (191) | (498) |
| Scitex (**) | 1,131 | 1,518 | 261 | 285 | (1,105) | 334 | (158) | (70) |
| AIPM (***) | 474 | 752 | 120 | 140 | 35 | 85 | 8 | 14 |
| Barak | 645 | 536 | 162 | 153 | (68) | (112) | (9) | (21) |
| Polgat (****) | 634 | 531 | 163 | 123 | (78) | (6) | (68) | (9) |
| Fundtech | 195 | 209 | 41 | 53 | (139) | 10 | (42) | (1) |

(*) Net income (loss) includes the effects of non-recurring factors.

(**) In 2000, includes pre-printing operations, which ceased to be consolidated on March 31, 2000

(***) In 2000, includes Hogla-Kimberley operations, which ceased to be consolidated on March 31, 2000

(****) As of 2001, the results of operations of Polgat Textiles are consolidated with those of Guney-Polgat.

D. Review of operations of principal companies ⁽²⁾

Nesher – The year saw an 18% reduction in the sales of cement as compared to the previous year, which reduction was due primarily to a 17% decrease in sales volume. The net income for the year of companies in the cement sector totaled NIS 104 million, as compared to NIS 126 million for the previous year.

In the fourth quarter, the sales of Nesher were similar to those of the corresponding quarter of the previous year, despite the 3% increase in sales volume. The net income of Nesher in the fourth quarter amounted to NIS 23 million, as compared to NIS 22 million in the corresponding quarter of 2000, before offsetting in that quarter the expense of NIS 10 million incurred with respect to the cessation of operations of old production lines.

(1) The surveys of ECI, Scitex and Fundtech are based on published financial statements prepared in accordance with accounting principles generally accepted in the U.S.A.

The decrease in sales and profitability was due mainly to the increase in imports of cement into Israel (at dumping prices), the crisis in the construction industry and the security situation. During January and February 2002, in the wake of a further increase in the rate of imports (109%), there was a decline in sales (19%) in comparison with the corresponding quarter of the previous year. These factors were partly offset by the cessation of operations of old production lines, which led to a reduction in costs.

ECI – ECI reported a loss for 2001 from continuing operations, before adjustment for non-recurring expenses, of NIS 446 million, as compared to a loss of NIS 48 million for the previous year. The loss, after accounting for the non-recurring expenses, amounted to NIS 1,821 million, as compared to a loss of NIS 404 million for 2000. Sales in 2001 totaled NIS 4,481 million, a decrease of 13% in comparison with the previous year.

In the fourth quarter, ECI lost NIS 51 million from continuing operations, without accounting for non-recurring expenses, as compared to a loss of NIS 95 million in the corresponding quarter of the previous year.

The loss of NIS 191 million for the quarter includes the writing-off of inventories, a decline in the value of assets, and restructuring expenses totaling NIS 140 million. Sales for the fourth quarter amounted to NIS 1,028 million, as compared to NIS 1,352 million for the corresponding quarter of the previous year (a reduction of 24%).

At the end of April 2001, ECI announced a cost-cutting program, including a cut-back in the workforce and a reduction in the salaries of senior management, which was designed to adjust the level of expenditures to the market conditions in which the company was operating. The reduction in expenditures was reflected by an improvement in cash flows from the current operations of ECI, which amounted to NIS 230 million in the second half of 2001.

As of January 1, 2001, the commercial operations of the principal divisions of ECI were transferred to five subsidiaries.

During 2001, class actions were brought against ECI and some of the company's directors. In the view of management, the actions brought by the plaintiffs are completely lacking in substance (see also Note 8 to the financial statements).

Scitex – Sales for the year increased by 13%, amounting to NIS 1,131 million, as compared to NIS 1,005 million for the previous year (excluding sales of NIS 513 million relating to the pre-printing division which was subsequently sold). A change in the mix of sales, as a consequence of prevailing market conditions, led to a decrease in gross profit. During the fourth quarter, Scitex sold more than half of its holdings in Creo.

The net loss for 2001, which includes losses of NIS 967 million attributable to the operations of Creo, amounted to NIS 1,105 million, as compared to net income of NIS 334 million for 2000 (which income included a gain of NIS 601 million arising on the merger of the pre-printing operations of Scitex with Creo).

Despite this year's improvement in the results of the digital printing operations, Scitex has, as of the second half of 2001, taken a number of steps to reduce the level of its expenditures, so as to enable the company to adapt to the recessionary market conditions in which it currently operates.

AIPM – Net income this year amounted to NIS 35 million, as compared to income of NIS 65 million (before accounting for non-recurring factors) for 2000. In the final quarter of 2001, net income amounted to NIS 8 million, as compared to NIS 14 million for the corresponding quarter of the previous year.

The decrease in income is attributable mainly to the company's writing paper and printing operations, as well as to its operations in the field of products for domestic use. The cyclical nature of the paper industry, which is currently in depression, has led to a paper supply situation at dumping prices and to the closing of margins as between the selling prices of pulp and paper.

In the field of domestic products, a deterioration in market conditions may be observed when comparison is made with the previous year. This situation has arisen in the light of intensified competition with international brand-names and the private brand-names of the marketing chains, as well as the economic crisis in Turkey, which has adversely affected an associated company operating in that country.

Kitan – Sales increased by 6%, and totaled NIS 806 million this year, as compared to NIS 762 million for the previous year. Operating income increased from NIS 40 million last year to NIS 50 million for the year under review. The improvement in results was mainly attributable to the improvement in the retail operations of the Golf group, as well as to the adoption of the efficiency program implemented by Kitan Industries.

Net income for the year, before accounting for non-recurring factors, amounted to NIS 29 million. In the final quarter, net income amounted to NIS 10 million, a result similar to that obtaining in the corresponding quarter of the previous year.

Polgat – Sales for the year amounted to NIS 634 million, as compared to NIS 531 million for the previous year. The increase in sales is primarily due to the initial consolidation of Guney Polgat. The net loss for the year, after accounting for non-recurring factors totaling NIS 61 million, amounted to NIS 78 million, as compared to NIS 6 million for the previous year. The non-recurring factors related to a retrenchment program and a restructuring of the Bagir works in Israel and Portugal.

During the period under review, Bagir continued its transfer of manufacturing operations to locations outside Israel, with a view to reducing significantly its level of manufacturing costs and simultaneously capturing a greater slice of the medium price-range market.

In addition, at the beginning of the year, the merger between Polgat Textiles and the Turkish group, Guney Sanayi, was completed, such that Polgat held 45% of the shares of the jointly-owned company, Guney Polgat. Subsequent to December 31, 2001, Polgat acquired further shares in Guney Polgat, and now possesses a 51% holding in that company.

Barak – The increase in revenues continued, reaching NIS 645 million this year, as compared to NIS 536 million in the previous year – an increase of 20%. In the fourth quarter of the year, revenues reached NIS 162 million, as compared to NIS 153 million for the corresponding period of the previous year. Barak finished the year with earnings before taxes, depreciation and financing expenses of NIS 117 million, as compared to NIS 1 million for the previous year. In the fourth quarter, earnings before taxes, depreciation and financing expenses amounted to NIS 36 million, as compared to NIS 19 million for the corresponding period of the previous year. The improvement in trading results is attributable to a significant expansion in all fields of operation, combined with the implementation of efficiency measures.

Fundtech – Revenues for the year amounted to NIS 195 million, as compared to NIS 209 million for the previous year. Revenues for the fourth quarter amounted to NIS 41 million, a decrease of 23% in comparison with the corresponding quarter of the previous year and of 12% in comparison with the third quarter of 2001.

A change in the mix of sales, attributable partly to the difficulty in obtaining new contracts, led to a decrease in the rates of profitability and to a loss-making situation. The loss for the year and for the fourth quarter, before accounting for the effects of non-recurring factors, was NIS 60 million and NIS 22 million, respectively.

The non-recurring factors included an increase in the provision for doubtful debts and a write-down in the value of marketable securities.

In general, the results of Group companies, both for the fourth quarter in particular, and for the entire year in general, were affected by the general economic recession in world markets and the domestic market, the security situation in Israel and in the United States, and the crisis in the capital market, especially in the technology and communications sectors. The overall effect of the factors outlined above is partly offset by reorganization and efficiency measures taken by a significant number of Group companies.

The continuing recession, both in the domestic economy and in world markets, will continue to have an adverse effect on the performance of Group companies.

4. *Principal changes in investments and investee companies*

4.1 In August 2001, the Company sold 25% of its holdings in Mashav to CRH, a company operating in the construction materials and cement sector, for NIS 596 million. The net capital gain stemming from the transaction, amounting to NIS 259 million, is reflected in the financial statements for the third quarter of 2001.

In addition, CRH has been granted a call option for the purchase of a further 25% of the Company's holdings in Mashav, such that, subsequent to exercise of the option, the Company and CRH will have identical holdings in Mashav. The option is exercisable at half-yearly intervals during the period commencing December 31, 2001 and ending December 31, 2003.

The parties have agreed that the exercise price of the option shall be determined by reference to the higher of, on the one hand, a company valuation of \$750 million, less the financial liabilities of Mashav as of the date of the exercise, and, on the other hand, such an amount as shall be determined by multiplying the earnings of Neshet before taxes, depreciation and financing expenses, for the twelve months preceding the date of exercise of the option, by a factor of 6.8, and adding thereto the sum of \$80 million for additional assets, and deducting therefrom the amount of the financial liabilities of Mashav as of the date of the exercise.

During the vesting period and in the period subsequent to any exercise of the option, the parties will engage in joint management of Mashav. In the event that the option is not exercised, CRH will have proportionate representation on the Board of Directors of Mashav, and will also enjoy certain minority rights.

Shortly before implementation of the transaction, Mashav paid a dividend of NIS 392 million. In addition, shortly before implementation of the transaction, the Company acquired from Mashav, certain real estate assets which are not used for the purposes of Mashav's principal operations, together with certain financial assets, for a consideration of NIS 145 million.

- 4.2 In January 2001, CBI invested NIS 44 million in OralScan Laboratories Inc. (“OralScan”), in addition to NIS 2 million transferred at the end of 2000. The consideration for the investment was 9.6% of the capital of OralScan. OralScan is engaged in the development and marketing of diagnostic systems for cancerous diseases.
- 4.3 In June 2001, CBI sold its remaining holdings in PRI for NIS 51 million. The resultant net gain amounted to NIS 46 million.
- 4.4 In October 2001, CBI invested NIS 33 million in D-Pharm as part of a program undertaken by that company to raise capital of \$30 million. Subsequent to the investment, the Company’s share of D-Pharm rose to 20% on a fully-diluted basis.
- 4.5 During the reported period, CBI invested NIS 27 million in MTRE – Advanced Technologies Ltd. (“MTRE”). The investment provides CBI with 9.7% of the capital of MTRE. MTRE develops and markets a device which regulates the temperature of the human body.
- 4.6 In May 2001, documents were signed relating to the establishment of the Infinity II Fund. The documents detail previous undertakings of the Company and CEI to invest \$25 million, in equal shares, towards the total Fund commitment of approximately \$53 million. In June 2001, 15% only of the commitment was invested. The initial capital mobilization stage was completed during July 2001. If the Infinity II Fund should undertake an investment commitment of at least \$70 million, the commitments of the Company and CEI would rise by a further \$5 million, such further commitment to be divided equally between the two companies. The Company and CEI both participate in the management of the Fund.
- 4.7 In July 2001, KBA disposed of its rights in a real estate asset. As a result of the disposal, a net gain of NIS 21 million was reflected in the Company’s financial statements for the third quarter of 2001.
- 4.8 In October 2001, the full purchase offer for the shares of Jaf-Ora was concluded, and the shares of Jaf-Ora thereupon ceased to be traded on the Stock Exchange. The cost of the shares acquired by the Company under the purchase offer amounted to NIS 11 million. Subsequent to the acquisition, the Company’s share of Jaf-Ora rose to 30.4%.
- 4.9 During the course of 2001, the Company acquired further shares of ECI for a total consideration of NIS 41 million.

In December 2001, an agreement was entered into between ECI and a group of investors (“the Dovrat Group”), under the terms of which the Dovrat Group will invest \$50 million in ECI in consideration for the allotment by ECI of 13,160,000 shares in that company. The shares allotted provide the Dovrat Group with 12.5% of the ownership and control of ECI. The transaction was completed on February 2002.

Subsequent to the above allotment, the holding of CII in ECI was 14.5% - a rate of holding which included the shares acquired in 2001 together with further shares purchased in February 2002.

- 4.10 In addition to the above, during the course of 2001, the Company and CEI invested, both directly and indirectly (through wholly-owned subsidiaries) NIS 147 million (after adjustment for inflation) in further companies as follows:

| | Millions of shekels |
|---------------------------------|--------------------------------|
| High-technology and electronics | 71 |
| Biotechnology | 22 |
| Venture capital funds | 33 |
| Miscellaneous sectors | 18 |
| Textile companies | 3 |

5. *Liquidity*

The consolidated balance sheet reflects a working capital deficiency of NIS 105 million. The working capital deficiency reflected in the Company's balance sheet amounts to NIS 361 million. As of balance sheet date, short-term liquid assets reflected in the consolidated balance sheet amounted to NIS 161 million; these assets are included within short-term investments and cash and cash equivalents. The consolidated balance sheet reveals a quick ratio of 0.49 (2000 – 0.27). The principal sources of funds were current operations (NIS 202 million), the proceeds of realization of assets and investments (NIS 723 million), and the proceeds of an issuance of debentures (NIS 338 million). The funds were principally applied towards the repayment of short-term credit (NIS 952 million), the purchase of fixed assets and other assets (NIS 143 million) and the acquisition of companies (NIS 339 million).

6. *Sources of Finance*

As of December 31, 2001, the Company's shareholders' equity amounted to NIS 2,830 million, as compared to NIS 3,045 million as of the end of the previous year. The minority interest was NIS 124 million (2000 – NIS 717 million). The funds represented by the 7% decrease in the Company's shareholders' equity and the 83% decrease in the minority interest, together constituted a source of finance for 53% of the Group's assets.

The Group's external long-term sources of finance totaled NIS 1,065 million as of December 31, 2001, as compared to NIS 681 million as of the end of the previous year. Approximately one half of these funds is repayable within the next two years. During the year under review, the Group obtained long-term loans totaling NIS 743 million, including proceeds of NIS 338 million derived from an issuance by the Company to institutions of non-marketable debentures in August 2001. In contrast, during the course of the year, the Group made repayment of long-term loans, which, combined with changes in short-term bank credit facilities, amounted to approximately NIS 1,249 million, net.

7. *Subsequent events*

7.1 In February 2002, the Company entered into a contractual agreement with respect to the sale of its holdings in Lasers International Technologies Ltd. ("Lasers") to a group headed by the managing director of Lasers. As consideration for the sale of its holdings, the Company is to receive \$7.00 million ("the initial consideration"). Under certain conditions, the consideration may rise to \$9.50 million. The net gain arising on the sale of the Company's holdings in Lasers, on the basis of the initial consideration, will be NIS 8 million.

Completion of the transaction is subject to all the required approvals being obtained, and to compliance being effected with respect to various prior conditions.

7.2 In January 2002, the Company made a private placement with institutions of debentures totaling approximately NIS 100 million, net.

7.3 During the period commencing December 31, 2001 and ending on the date of approval of the attached financial statements, the Company invested NIS 39 million in various companies, including ECI and Fundtech. The investments were made both directly and indirectly, through wholly-owned subsidiaries.

8. *Influence of external factors*

Various external risk factors, which are not susceptible to quantification, may have a significant effect on the Company's commercial operations. These factors are described below:

8.1 Technology sector – The Company has holdings, either direct or indirect, in technology-based companies, including ECI, Scitex, Fundtech, CBI and various venture capital funds. The technology sector has been marked, in recent years, by rapid technological development, significant investment in research and development, and, in some cases, by short product lives. The operating results of investee companies operating in this sector are dependent upon the ability of those companies to adapt to rapidly-changing competitive market conditions, and to develop new generations of products and services which are compatible with consumer demand. There is no certainty that the investee companies operating in this sector will be successful in meeting the changing requirements of the marketplace. In addition, the Company's ability to identify, at an early stage, those businesses employing technological innovations with commercial potential, constitutes an important factor with respect to the Company's growth and its ability to be competitive.

8.2 Renewal of licenses and concessions

A number of investee companies, including Neshet, Ta'avura, Maman – Cargo Terminals and Handling Ltd. (“Maman”) and Barak, operate by virtue of licenses or concessions awarded by due process of law. Some of the licenses and concessions are awarded for a limited period of time only, and must be renewed from time to time in accordance with the relevant legislation or the terms under which the concession was previously awarded. There is no certainty that the above licenses or concessions will be renewed. Non-renewal of a license or concession previously awarded to an investee company, may carry implications for the Company’s profitability.

8.3 Financial risks

The Company is exposed to risk with respect to changes in the prices of marketable securities held by the Company and investee companies. The Company is also exposed to changes in interest rates, the pace of inflation and foreign exchange rates, all of which affect, either directly or indirectly, the Company’s trading results and the value of its assets and liabilities. In some Group companies, a significant percentage of overall sales is directed towards the export market. In addition, some Group companies import raw materials required for their particular operations. Accordingly, the trading results of those companies may be affected by fluctuations in exchange rates and/or world prices of raw materials. Political conditions prevailing in countries from which goods are imported may affect the ability of importing companies to obtain the materials required. The consequent exposure to uncertainty affects various sectors in which investee companies operate, including, for example, the cement and textile sectors. This situation may adversely affect the trading results of companies operating in these sectors.

8.4 Restrictions on the realization of holdings

The Company and some of its investee companies are subject to contractual and legal restrictions which may restrict the Company’s ability to realize shareholdings into a more liquid form.

8.5 Budgetary factors

Budgets of State bodies in general, and defense establishments in particular, affect the operations of some investee companies. Changes in these budgets may have a significant effect on these companies' operations.

8.6 The Israel economy

The Government's monetary policy, and in particular, changes in the cost of capital, as well as the policy of devaluation, may affect the profitability of investee companies. The recession in the local economy is affecting companies operating in Israel. In addition, the operations of certain investee companies are affected by seasonal factors, either because of a dependence on agriculture or in relation to the seasons of the year (the clothing industry).

8.7 Restrictive Practices Law

Some investee companies, such as AIPM, Neshet and Maman, have been declared to be monopolies in certain fields by the Supervisor of Restrictive Practices ("the Supervisor"). Other investee companies, such as Jaf-Ora, have reached various agreements with the Supervisor, thus avoiding a declaration on monopoly status. The imposition of restrictions on investee companies declared, or to be declared, a monopoly, may adversely affect the Company's trading results, in particular because of price supervision and other restrictions.

Neshet concluded an agreement with government departments on the price structure of cement for the period ending July 1, 2002. The agreement dictates a real decrease in prices at a rate of 13.7% for the period commencing July 1, 1998. By December 31, 2001, real prices had fallen by 12.8%. This reduction was made possible after the introduction of efficiency measures stemming from the setting-up of dry production lines and the passing-on to the consumer of some of the benefits derived from the implementation of these measures. Throughout the period, Neshet was not subject to supervision under the prevailing system in view of the fact that the above agreement had been concluded.

8.8 Mandatory Tender Law

The Mandatory Tender Law, 1992 affects the revenues of some of the investee companies which make sales to entities subject to this law.

8.9 Changes in capital markets both in Israel and world-wide

In recent months, there have been significant falls in the stock exchange prices of the shares of traded technology-based companies both in Israel and throughout the world. In the prevailing state of the capital market, there may well be sharp fluctuations in the prices of shares of traded investee companies. The continuing depression in the capital markets may have an adverse effect on the Company's ability to realize capital gains on the disposal of its investments. Amongst the factors contributing to this situation are the difficulty in arranging the public issuance of shares of investee companies, the possible fall in the prices of securities of investee companies after a stock exchange flotation, and the difficulty of locating sources of finance for investee companies (in particular, because of the likelihood that investment entities, notably venture capital funds, will reduce the extent of their investment in technology-based companies).

8.10 Political and security situation

The deterioration in the political and security situation, and the economic recession in Israel and the areas of the Palestinian Authority, are adversely affecting the situation of investee companies operating in Israel, mainly because of the reluctance of foreign investors to invest in Israeli companies, and the reluctance of international companies to enter into contractual relations with Israeli companies. The closure on the areas of the Palestinian Authority has an adverse effect on the operations of certain investee companies, both from an operational point of view and from the standpoint of demand. Certain investee companies had transferred some of their production facilities to areas of the Palestinian Authority and to the territories of neighboring States; the current state of relations with the Palestinian Authority and the neighboring countries is affecting the operational functioning of these companies.

8.11 Construction industry

Difficulties and changes with respect to the scope of operations within the construction industry may affect the operations of some investee companies – notably, Neshet, whose operations are closely tied to those of the construction industry, including the implementation of public works and the laying of infrastructure. In addition, some investee companies are exposed to various demands of supervisory authorities responsible for the preservation of the environment.

8.12 Salaries and industrial relations

A marked increase in the minimum wage may affect the profitability of Group companies. In view of the large numbers of workers employed by these companies, future such changes in the minimum wage are likely to affect the trading results of the company and its investee companies. In addition, strikes and industrial unrest in Group companies and at the country's ports lead to delays in the receipt of raw materials, and adversely affect production and exports.

8.13 Supervision of banks

The instructions of the Israel Supervisor of Banks contain restrictions with respect to the liability of a group of borrowers to an Israel bank. According to these restrictions, such a liability may not exceed a specified proportion of that bank's capital. In light of the fact that CII, its subsidiaries and some of its investee companies are regarded as belonging to a "group of borrowers" in relation to I.D.B. Holdings, the above instructions may have a significant effect on the ability of some banks in Israel to increase the extent of the credit facilities available to the Group.

9. *Analysis of market risks to which the Group is exposed and the management of those risks*

This report relates to the Company and its wholly-owned subsidiaries, excluding those companies referred to in paragraph 9.6 ("the Corporation"):

9.1 The officer responsible for managing the financial risks to which the Corporation is exposed, is Mr. Gonen Biber, Deputy Managing Director, Finance ("the responsible officer").

9.2 Market risks to which the Corporation is exposed

The Corporation is exposed to a variety of market risks (*) during the ordinary course of its business. The principal such risks relate to changes in the prices of marketable securities which may affect the market value of the Corporation, and which are also likely to affect its trading results and shareholders' equity. In addition to the above, the Corporation is also exposed to changes in interest rates, the pace of inflation and currency exchange rates, all of which affect, both directly and indirectly, its trading results and the value of its assets and liabilities.

(*) As the term is defined in the guidelines of the Securities Authority dated November 29, 1999

9.3 The Corporation's policy with respect to the management of market risks

The Corporation holds marketable securities in a wide range of investee companies. As a general rule, the Company does not hedge its investments in marketable securities, in view of, amongst other factors, the large extent to which the Company has invested in marketable securities, the spread of investments both in Israel and overseas, the spread of investments in different securities and sectors, and in addition, the legal restrictions on the purchase of various derivative instruments.

The Corporation attempts to match, as far as possible, the linkage bases of its financial assets with those of its liabilities, and the length of the average life of its financial assets with the length of the average life of its liabilities.

9.4 Methods of supervision and implementation of policy

From time to time, generally once a year, the Board of Directors determines the extent of the hedging transactions permitted, and the authority of the Corporation managers. In accordance with a resolution of the Board of Directors, management is authorized:

- a) to implement, from time to time, at its discretion, hedging transactions, including forward exchange transactions and transactions in options and other financial instruments (with respect to principal or interest), for the purpose of reducing or eliminating completely, such exposure as may arise from time to time in consequence of the financial structure of the Corporation;
- b) to hold, from time to time, surplus liabilities or foreign currency-linked assets, to an extent that does not exceed \$250 million.

The transactions are implemented by the responsible officer, who is authorized to implement such hedging transactions as are required in order to comply with Corporation policy. The responsible officer reports to the managing director on a regular basis with respect to the implementation of the hedging transactions. Management is required to report to the Board of Directors as necessary, and must, in any event, report at least once a year.

During the period of account, the Corporation implemented hedging transactions which had a minimal effect on the statement of operations.

9.5 Subsequent events

Aside from the change in the exchange rate of the U.S. dollar, which increased by approximately 6% in the period between December 31, 2001 and the date of approval of the attached financial statements, and further declines in the stock exchange value of some of the Company's traded investments, no significant events were recorded with respect to market risk in the period subsequent to balance sheet date.

9.6 Subsidiaries

Nesher, Polgat and Kitan are exposed to fluctuations in the prices of raw materials and energy, and to changes in exchange rates and interest rates, all of which affect the revenues and expenditures of these companies.

The above companies match their sources of income and their expenditures with respect to each foreign currency. From time to time, Polgat and Kitan engage in hedging transactions with foreign currency derivative instruments in order to reduce exposure. Nesher engages in commodity and various energy product contracts of up to one year, as a hedge against unexpected price increases in the world market.

10. *Remuneration of Senior Employees*

In determining salaries and bonuses, and the granting of options, the Board of Directors is guided, inter alia, by considerations relating to the position and function of each senior officer, his contribution to the operations and advancement of the Company, and the scale of the operations of the Company. With respect to plans for the granting of options, exercisable over extended periods, the primary objective of the plans is to foster a long-term relationship with the senior employees of the Company by allowing them to participate in the Company's equity, and thus in the benefits of the initiatives, development and management carried out by the Company.

11. *Assistance to the community in Israel*

The Clal Industries and Investments Group views contributing to, and assisting, the community in Israel as a central plank in its business vision. This outlook is expressed in the business and ethical code of values of the I.D.B. Group, as follows: "The Group values its contribution to the State of Israel – in the economic, employment and technology fields. The Group is proud of its commitment to the preservation of the environment and the attainment of goals for the benefit of the community".

The Group actively encourages Group companies to expand their activities in relation to community-oriented projects carried out in conjunction with the Zionism 2000 scheme. Through the medium of these projects, the Company accords priority to contributions in the fields of education, culture and health, by assisting distressed communities in Israel, with special emphases being given to underprivileged neighborhoods, development towns and minority settlements.

The I.D.B. Group, together with the Company and its subsidiaries, has established an Amuta, known as Tapuach – the Foundation for the Advancement of Information in Israel. The aims of the Amuta are to train the wider public in the use of the Internet and provide information-technology skills. The scheme focuses on underprivileged neighborhoods, development towns and minority settlements. At the present time, the Tapuach Foundation operates 36 community centers.

During the course of 2001, the Group made donations totaling approximately NIS 1.8 million, as follows:

| | In thousands of shekels |
|---|--|
| Education | 473 |
| Tapuach Foundation | 300 |
| Clal I.D.B. Fund | 300 |
| Health | 170 |
| Cultural, social and miscellaneous purposes | 557 |

We wish to thank the Group's directors and employees for their contribution to the advancement and development of the Group.

.....
LEON RECANATI
 Chairman of the
 Board of Directors

.....
MEIR SHANNIE
 General Manager

CLAL INDUSTRIES AND INVESTMENTS LTD.

FINANCIAL STATEMENTS

As of December 31, 2001

CLAL INDUSTRIES AND INVESTMENTS LTD.

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001**

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#

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED BALANCE SHEETS

In millions of shekels of December 2001

| | | December 31 | |
|--|------|--------------|------------------|
| | Note | 2001 | 2000 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 73 | 73 |
| Short-term investments | (3) | 88 | 76 |
| Trade receivables | (4) | 442 | 354 |
| Other receivables | (5) | 115 | 150 |
| Inventories | (6) | 654 | 720 |
| | | <u>1,372</u> | <u>1,373</u> |
| LONG-TERM DEPOSITS, LOANS AND RECEIVABLES | | | |
| | (7) | <u>44</u> | <u>85</u> |
| INVESTMENTS | | | |
| Investee companies | (8) | 1,380 | 1,928 |
| Others | (9) | 768 | 1,040 |
| | | <u>2,148</u> | <u>2,968</u> |
| FIXED ASSETS | | | |
| Cost | (10) | 5,433 | 6,840 |
| Less - accumulated depreciation | | <u>3,612</u> | <u>4,414</u> |
| | | <u>1,821</u> | <u>(*) 2,426</u> |
| OTHER ASSETS AND DEFERRED CHARGES | | | |
| | (11) | <u>223</u> | <u>(*) 303</u> |
| | | <u>5,608</u> | <u>7,155</u> |

(*) Reclassified

| | | December 31 | |
|---|-------------|--------------------|--------------|
| | <u>Note</u> | <u>2001</u> | <u>2000</u> |
| CURRENT LIABILITIES | | | |
| Banks | (12) | 809 | 1,676 |
| Trade payables | (13) | 259 | 305 |
| Other payables | (14) | 361 | 380 |
| Other current liabilities | (15) | 48 | 42 |
| | | <u>1,477</u> | <u>2,403</u> |
| LONG-TERM LIABILITIES | | | |
| Debentures | (16) | 350 | 18 |
| Loans | (17) | 458 | 519 |
| Deferred taxes | (18) | 203 | 249 |
| Termination benefits | (19) | 99 | 121 |
| Other liabilities | (20) | 67 | 83 |
| | | <u>1,177</u> | <u>990</u> |
| CONTINGENT LIABILITIES AND COMMITMENTS | | | |
| | (21) | | |
| MINORITY INTERESTS | | | |
| | | <u>124</u> | <u>717</u> |
| SHAREHOLDERS' EQUITY | | | |
| | (22) | <u>2,830</u> | <u>3,045</u> |
| | | <u>5,608</u> | <u>7,155</u> |

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

BALANCE SHEETS

In millions of shekels of December 2001

| | | December 31 | |
|--|-------------|--------------------|--------------|
| | Note | 2001 | 2000 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 1 | - |
| Short-term investments | (3) | 45 | 65 |
| Other receivables | (5) | 26 | 11 |
| | | <u>72</u> | <u>76</u> |
| DEPOSITS, LOANS AND LONG-TERM DEBTS | | | |
| | (7) | 18 | - |
| INVESTMENTS | | | |
| Investee companies | (8) | 3,728 | 4,169 |
| Others | (9) | 200 | 262 |
| | | <u>3,928</u> | <u>4,431</u> |
| OTHER ASSETS AND DEFERRED CHARGES | | | |
| | (11) | <u>39</u> | <u>7</u> |
| | | <u>4,057</u> | <u>4,514</u> |

| | | December 31 | |
|---|-------------|--------------------|--------------|
| | Note | 2001 | 2000 |
| CURRENT LIABILITIES | | | |
| Banks | (12) | 353 | 868 |
| Other payables | (14) | 12 | 5 |
| Other current liabilities | (15) | 45 | 201 |
| | | <u>410</u> | <u>1,074</u> |
| LONG-TERM LIABILITIES | | | |
| Debentures | (16) | 350 | 18 |
| Loans | (17) | 431 | 373 |
| Other liabilities | (20) | 36 | 4 |
| | | <u>817</u> | <u>395</u> |
| CONTINGENT LIABILITIES AND COMMITMENTS | | | |
| | (21) | | |
| SHAREHOLDERS' EQUITY | | | |
| | (22) | <u>2,830</u> | <u>3,045</u> |
| | | <u>4,057</u> | <u>4,514</u> |

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

In millions of shekels of December 2001, except earnings per share

| | Note | For the year ended December 31 | | |
|---|------|--------------------------------|--------|-------|
| | | 2001 | 2000 | 1999 |
| REVENUES, NET | | | | |
| Sales and services | | 3,010 | 3,269 | 2,132 |
| Equity in earnings (losses) of investee companies | | (488) | (97) | 170 |
| Other income (expenses), net | (25) | (432) | (196) | 415 |
| | | 2,090 | 2,976 | 2,717 |
| COSTS AND EXPENSES | | | | |
| Cost of sales and services | (26) | 2,178 | 2,396 | 1,484 |
| Selling and marketing expenses | (27) | 374 | 341 | 284 |
| General and administrative expenses | (28) | 205 | 204 | 172 |
| Financing expenses (income), net | (29) | 107 | 157 | (24) |
| | | 2,864 | 3,098 | 1,916 |
| Income (loss) before taxes on income | | (774) | (122) | 801 |
| TAXES ON INCOME | (30) | 114 | 98 | 49 |
| Income (loss) after taxes on income | | (888) | (220) | 752 |
| MINORITY INTERESTS | | | | |
| | | 219 | 131 | (318) |
| Net income (loss) | | (669) | (89) | 434 |
| EARNINGS (LOSS) PER SHARE | | | | |
| (in shekels) | (34) | | | |
| Earnings (loss) from continuing operations | | (4.52) | (0.64) | 3.10 |

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF OPERATIONS

In millions of shekels of December 2001

| | | For the year ended December 31 | | |
|--|-------------|---------------------------------------|-------------|-------------|
| | Note | 2001 | 2000 | 1999 |
| REVENUES, NET | | | | |
| Equity in earnings of investee companies | | (650) | 18 | 502 |
| Other expenses, net | (25) | <u>47</u> | <u>(24)</u> | <u>(65)</u> |
| | | <u>(603)</u> | <u>(6)</u> | <u>437</u> |
| EXPENSES | | | | |
| General and administrative expenses | (28) | 6 | 6 | 2 |
| Financing expenses, net | (29) | <u>60</u> | <u>77</u> | <u>1</u> |
| | | <u>66</u> | <u>83</u> | <u>3</u> |
| Net income (loss) | | <u>(669)</u> | <u>(89)</u> | <u>434</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 millions of shekels of December 2001

| | <u>Share capital</u> | <u>Reserves (*)</u> | <u>Retained earnings</u> | <u>Total</u> |
|--|--------------------------|--------------------------|------------------------------|--------------|
| Balance as of January 1, 1999 | 1,186 | 38 | 1,701 | 2,925 |
| Inflationary erosion of dividend | - | - | (2) | (2) |
| Dividend | - | - | (165) | (165) |
| Differences arising from financial statements of certain investees adjusted to foreign currency | - | (17) | - | (17) |
| Net income | - | - | 434 | 434 |
| Balance as of January 1, 2000 | 1,186 | 21 | 1,968 | 3,175 |
| Differences arising from financial statements of certain investees adjusted to foreign currency | - | (41) | - | (41) |
| Net loss | - | - | (89) | (89) |
| Balance as of December 31, 2000 | 1,186 | (20) | 1,879 | 3,045 |
| Issuance of shares (see Note 1C) | 17 | 333 | - | 350 |
| Differences arising from financial statements of certain investees adjusted to foreign currency | - | 104 | - | 104 |
| Net loss | - | - | (669) | (669) |
| Balance as of December 31, 2001 | <u>1,203</u> | <u>417</u> | <u>1,210</u> | <u>2,830</u> |

(*) Composition:

| | December 31 | | |
|--|--------------------|-------------|-------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Capital reserves: | | | |
| Premium on shares | 549 | 216 | 216 |
| Capitalized earnings | 22 | 22 | 22 |
| Expired warrants of investee companies | 11 | 11 | 11 |
| Purchasing power gain on capital note issued to a company in the IDB Group | 5 | 5 | 5 |
| | <u>587</u> | <u>254</u> | <u>254</u> |
| Differences arising from financial statements of certain investees restated to foreign currency | (170) | (274) | (233) |
| | <u>417</u> | <u>(20)</u> | <u>21</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 millions of shekels of December 2001

| | For the year ended December 31 | | |
|--|--------------------------------|---------|-------|
| | 2001 | 2000 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | (669) | (89) | 434 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities (see Note A) | 871 | 404 | 116 |
| Net cash provided by operating activities | 202 | 315 | 550 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of fixed and other assets | (143) | (212) | (175) |
| Investment grant received | 1 | 7 | 1 |
| Acquisition of newly consolidated subsidiaries (see Note B) | (5) | (893) | (40) |
| Investments in investee companies and other investments | (334) | (911) | (888) |
| Disposal of marketable securities, net | 14 | 157 | 4 |
| Proceeds from disposal of fixed assets | 60 | 21 | 21 |
| Proceeds from disposal of investments | 101 | 203 | 653 |
| Proceeds from sale of previously consolidated subsidiaries (see Note C) | 562 | - | 6 |
| Decrease in deposits and short-term loans | 6 | 295 | 26 |
| Increase in deposits and long-term loans | (16) | 4 | (46) |
| Decrease (increase) in short-term loans to companies in the IDB Group | 16 | 61 | (67) |
| Collection of long-term loans to companies in the IDB Group | 13 | 52 | 7 |
| Collection of long-term loans and other receivables | 21 | 40 | 88 |
| Net cash provided by (used in) investing activities | 296 | (1,184) | (410) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issuance of shares to minority shareholders | - | 11 | 11 |
| Receipt of loans and other long-term liabilities: | | | |
| Banks and others | 405 | 362 | 85 |
| Repayment of loans and other long-term liabilities: | | | |
| Banks and others | (262) | (179) | (66) |
| Companies in the IDB Group | (26) | (41) | (26) |
| Issuance of debentures | 338 | 2 | - |
| Redemption of debentures | (9) | (20) | - |
| Changes in short-term credit from banks, net | (952) | 445 | 630 |
| Increase (decrease) in other current liabilities, net | 26 | 1 | (1) |
| Dividend paid to minority shareholders of subsidiaries | (21) | (34) | (103) |
| Dividend paid to Company shareholders | - | - | (578) |
| Net cash provided by (used in) financing activities | (501) | 547 | (48) |
| TRANSLATION DIFFERENCES IN RESPECT OF CASH BALANCES HELD BY AUTONOMOUS INVESTEES | | | |
| | 3 | (6) | (4) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | - | (328) | 88 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | |
| | 73 | 401 | 313 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| | 73 | 73 | 401 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In millions of shekels of December 2001

| | For the year ended December 31 | | |
|---|--------------------------------|---------|-------|
| | 2001 | 2000 | 1999 |
| 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 | (219) | (131) | 318 |
| Group equity in losses of associated companies, net (*) | 499 | 141 | 47 |
| Gain on sale of investments, net | (310) | (203) | (533) |
| Decrease in value of investments | 666 | 369 | 54 |
| Losses of partnerships | 11 | 3 | 2 |
| Depreciation and amortization | 307 | 310 | 220 |
| Gain on sale of fixed and other assets | (6) | (7) | (6) |
| Deferred taxes | 16 | 7 | (11) |
| Increase (Decreased) in termination benefit obligations | (11) | 33 | 7 |
| Revaluation of deposits, loans and long-term liabilities | (7) | - | - |
| Purchasing power loss (gain) on long-term liabilities | 14 | (3) | - |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in receivables and prepayments | (88) | (28) | 56 |
| Decrease (increase) in inventories | 48 | (53) | 12 |
| Decrease in payables | (49) | (34) | (50) |
| | 871 | 404 | 116 |
| (*) Dividends received | 11 | 44 | 217 |
| B. ACQUISITION OF NEWLY CONSOLIDATED SUBSIDIARIES (INCLUDING TRANSITION FROM PROPORTIONAL TO FULL CONSOLIDATION) | | | |
| Assets and liabilities of subsidiaries at date of acquisition: | | | |
| Negative working capital (working capital), excluding cash | - | 208 | (139) |
| Holdings in investee companies and in others | - | (52) | - |
| Fixed assets, other assets and deferred charges | (5) | (1,326) | (165) |
| Long-term liabilities | - | 273 | 71 |
| Minority interests | - | 4 | 89 |
| Equity at date of acquisition (formerly associated company) | - | - | 104 |
| | (5) | (893) | (40) |
| C. PROCEEDS FROM SALE OF PREVIOUSLY CONSOLIDATED SUBSIDIARIES (INCLUDING TRANSITION FROM PROPORTIONAL TO FULL CONSOLIDATION) | | | |
| Assets and liabilities of subsidiaries at date of sale: | | | |
| Negative working capital excluding cash | (161) | - | - |
| Investments, fixed assets, other assets and deferred charges | 469 | - | 4 |
| Long-term liabilities | (13) | - | - |
| Minority interest | (2) | - | - |
| Capital gain on realization of investment | 269 | - | 2 |
| | 562 | - | 6 |
| D. NONCASH TRANSACTIONS | | | |
| Issuance of shares in exchange for shares of subsidiary | 350 | - | - |
| Investments in investee and other companies and purchase of assets on credit | 1 | 6 | 167 |
| Proceeds from sale of another company received in marketable shares | - | 11 | - |

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CASH FLOWS

In millions of shekels of December 2001

| | For the year ended December 31 | | |
|--|---------------------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | (669) | (89) | 434 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (see Note A) | 824 | 50 | 1,030 |
| Net cash provided by (used in) operating activities | 155 | (39) | 1,464 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Granting of loans to investee companies | (426) | (295) | (39) |
| Investments in investee companies and others | (59) | (1,165) | (328) |
| Acquisition of real estate | (47) | - | - |
| Proceeds from disposal of investments | 587 | 101 | 2 |
| Collection of loans to investee companies | 100 | 12 | 3 |
| Grant of loans to others | (18) | - | - |
| Investment in short-term deposit in investee company | - | (2) | (62) |
| Investment in marketable securities, net | - | 71 | (68) |
| Net cash provided by (used in) investing activities | 137 | (1,278) | (492) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Changes in short-term credit from banks, net | (602) | 727 | 115 |
| Receipt (repayment) of short-term loans from investee companies | (139) | 167 | (413) |
| Receipt of long-term loan from banks | 141 | 111 | 20 |
| Receipt of long-term loan from investee company | 66 | 225 | 13 |
| Issuance of debentures | 338 | - | - |
| Repayment of long-term loan from bank | (63) | - | - |
| Repayment of loans from IDB Group companies | (5) | (6) | (18) |
| Repayment of loans from investee company and from others | (18) | - | - |
| Redemption of debentures | (9) | (18) | - |
| Dividend paid | - | - | (578) |
| Net cash provided by (used in) financing activities | (291) | 1,206 | (861) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | 1 | (111) | 111 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | |
| | - | 111 | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| | 1 | - | 111 |

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CASH FLOWS (Cont.)

In millions of shekels of December 2001

| | For the year ended December 31 | | |
|---|---------------------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| A. ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | | |
| Charges (credits) to income not affecting operating cash flows: | | | |
| Equity in losses of investee companies(*) | 846 | 8 | 955 |
| Loss (gain) on sale of investments in investee companies and losses of partnerships | (249) | (22) | 12 |
| Decrease in value of investments | 211 | 65 | 17 |
| Depreciation and amortization | 1 | 1 | 40 |
| Net purchasing power gain on assets and liabilities | - | (1) | (2) |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in receivables and prepayments | 8 | (1) | 5 |
| Increase in payables | 7 | - | 3 |
| | 824 | 50 | 1,030 |
| (*) Dividends received | 196 | 26 | 1,457 |
| B. NONCASH TRANSACTIONS | | | |
| Issuance of shares in exchange for shares of subsidiary | 350 | - | - |

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS

In millions of shekels of December 2001

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. The Company is a subsidiary of I.D.B. Development Ltd. The term "I.D.B. Group company" in these financial statements refers to an investee company of the parent company, except companies in the Clal Industries and Investments Ltd. Group itself ("investee companies"). The term "Group companies" in these financial statements refers to the Company and its investee companies.
- C. On July 17, 2001 the merger of the Company with the Clal Electronics Industries Ltd. subsidiary ("Clal Electronics" or "CEI") was finalized, through exchange of shares, so that after the merger the Company holds all of the shares of Clal Electronics and the shares of Clal Electronics were removed from trading on the Tel Aviv Stock Exchange. The merger was completed after approval by the boards of directors and shareholders of both companies. In addition, the merger was approved by a court order.

The conversion ratio fixed was 12 shares of the Company in respect of one share of Clal Electronics. This conversion ratio was fixed on the basis of the opinion of an independent expert.

In the framework of the merger, the Company issued 16,528,608 ordinary shares of NIS 1 par value. The shares were issued to holders of ordinary shares of NIS 1 par value of Clal Electronics at the end of trading on July 16, 2001 ("the determining date") based on the conversion ratio mentioned above. As a result, the issued and paid-up share capital of the Company increased to 156,862,252 ordinary shares of NIS 1 par value.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 1 - GENERAL (Cont.)

Also, the Company granted 575,208 options for the acquisition of up to 575,208 ordinary shares of NIS 1 par value of the Company to officers of Clal Electronics in place of options for the acquisition of shares of Clal Electronics which were issued to them according to option plans from 1997 and 2001 and which were held by them on the determining date. The conditions of the options granted by the Company, as stated, are materially similar, with the required changes, to the conditions in respect of the options of Clal Electronics which were cancelled - see Note 32.

The investment and the capital allocated in consideration for the merger are included in the Company's accounts according to the book value of the part of the shareholders' equity which was acquired in Clal Electronics - NIS 350 million.

- D. The balance sheets as of December 31, 2001 reflect a deficiency in working capital. In the opinion of management of the Company, the Company is able to raise the required funds 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 millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the financial statements, applied 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 2001) 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, 2001 the consumer price index rose by 1.4% (2000 – remained unchanged; 1999 – 1.3%). 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 2001.

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.

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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

A. ADJUSTED FINANCIAL STATEMENTS (Cont.)

Expenses, other than financing expenses and those deriving from nonmonetary items, are adjusted for the changes in the index from the date of payment 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.

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 as of the date of the transaction. Translation differences are included in financing income or expenses.

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 2001, the exchange rate of the U.S. dollar increased by 9.3%; 2000 - decreased by 2.7%; 1999 - increased by 0.2%). 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").

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

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.

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

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments including deposits in banks with original maturities of three months or less.

D. 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.

E. 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.

F. 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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

F. INVESTMENTS IN INVESTEE COMPANIES (Cont.)

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 – see H. below.

G. OTHER INVESTMENTS

The investment in shares in venture capital funds (mainly constituted as partnerships) in which the Company exercises significant influence are 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 after write-down for declines in value which are other than temporary – see H. below.

The investment in oil and gas prospecting is recorded in accordance with the “successful efforts” method, according to which current expenses in respect of exploration and surveys are charged to operations when incurred. The investment in drilling, as long as certainty exists regarding proven reserves 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 operations. If it is determined that reserves of oil or gas exist in the sites, the cost will be amortized on the basis of the quantity produced in proportion to the total proven reserves in the same year.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

H. EXAMINATION OF NEED FOR AMORTIZATION OF INVESTMENTS

The Company examines the fair value of its investments in advance of publication of its financial statements and in the event of extraordinary events or cautionary signs which may be evidence of a decrease in value which is not of a temporary nature.

Examination of the fair value takes into account, inter alia, the market value of investments (regarding investments in marketable securities), analysts' analyses and valuations of the investments, the situation in the sector in which the investee entity is active, the business position of the investee entity, off-stock exchange transactions of the investee entity, cost of raising capital in the investee entity, the goodwill component in investments (regarding investments presented by the equity method), additional information submitted by the investee entity to its board of directors (regarding investments in which the Company is represented on the board of directors) or to its shareholders.

In accordance with the results of said examination, the Company includes in its accounts, insofar as necessary, an allowance for a decrease in value, which is not of a temporary nature, as a charged to operations.

I. 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.

The Group companies examine the existence of a decrease in value (impairment) regarding the value of the fixed assets and, insofar as necessary, implements additional amortization of the assets.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

J. 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.

Regarding goodwill on acquisition of investee companies - see F. above.

K. DEFERRED CHARGES

Debenture issuance expenses and expenses in obtaining long-term loans are amortized over the terms of the debentures and loans.

L. 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 in 2000 did not have a material effect on the reported results.

M. RESEARCH AND DEVELOPMENT COSTS

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

N. 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 and in respect of losses carried forward for tax purposes). 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, based on tax legislation in effect as of balance sheet date.

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.

O. 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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

P. 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 4.416 (2000 – NIS 4.041; 1999 - NIS 4.153).

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

Q. 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.

R. EFFECT OF RECENTLY PUBLISHED ACCOUNTING STANDARDS

A. In July 2001, the Israel Accounting Standards Board published Accounting Standard No. 11, "Segment Reporting". The Standard establishes quantitative guidelines and criteria for identification of required reporting segments and information which is required to be included in respect of each segment as stated. According to the Standard, segment reporting is required to include more detailed information than that included at present, e.g. information on the liabilities of the segment, cost of acquisition of long-term assets, depreciation and amortization and the Company's equity in results of affiliated companies;. The Standard will take effect for financial statements for periods as from January 1, 2002 or thereafter.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 2 - ACCOUNTING POLICIES (Cont.)

R. EFFECT OF RECENTLY PUBLISHED ACCOUNTING STANDARDS (Cont.)

- B. In 2001, the Israel Accounting Standards Board published Accounting Standard No. 12, "Cessation of Adjustment of Financial Statements". In accordance with this Standard, adjustment of financial statements for the effect of the changes in the general purchasing power of the Israeli currency will cease as from January 1, 2003. Until December 31, 2002 the Company will continue to prepare adjusted financial statements in accordance with Pronouncement 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2002 will serve as a basis for the nominal reporting as from January 1, 2003.

Application of the Standard as from 2003 may affect the Company's reported results in an amount which is dependent upon the rate of inflation, the composition of the assets of the Company and its sources of financing.

- C. As a result of publication of Accounting Standard No. 12, the Israel Accounting Standards Board published Accounting Standard No. 13, "Effect of Changes in Exchange Rates of Foreign Currency". The Standard establishes the accounting for transactions in foreign currency and for translation of financial statements of investee companies with activity abroad. Also, the Standard establishes rules for determining whether the entity is a "long arm" of the reporting entity or an autonomous investee unit and for translating the financial statements of said investee companies.

After adoption of the Standard, goodwill derived from acquisition of autonomous investee units abroad will be translated according to the closing rate and not according to the rate as of the date of the transaction as at present. Also, items in the statement of operations of these investee units will be translated according to the average rate of exchange during the period and not according to the closing rate as utilized by the Company at present.

The new Standard will take effect for financial statements for periods after December 31, 2002. The Company is examining the effect of the new Standard but is unable at this stage to measure the effect of the Standard on the financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 3 - SHORT-TERM INVESTMENTS

| | CONSOLIDATED | | COMPANY | |
|--|--------------|-----------|-----------|-----------|
| | December 31 | | | |
| | 2001 | 2000 | 2001 | 2000 |
| Marketable securities: (mainly shares and participation units in mutual funds) | 4 | 18 | 1 | - |
| Short-term loans and deposits: | | | | |
| Short-term bank deposits | 1 | 21 | - | 1 |
| Loans to investee companies | - | - | - | 64 |
| Current maturities of long-term loans and deposits | 83 | 37 | 44 | - |
| | <u>88</u> | <u>76</u> | <u>45</u> | <u>65</u> |

Note 4 - TRADE RECEIVABLES - CONSOLIDATED

| | December 31 | |
|--|-------------|------------|
| | 2001 | 2000 |
| Open accounts | 338 | 263 |
| Credit card companies | 66 | 69 |
| Checks receivable | 49 | 35 |
| | <u>453</u> | <u>367</u> |
| Less - allowance for doubtful accounts | 11 | 13 |
| | <u>442</u> | <u>354</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 5 - OTHER RECEIVABLES AND PREPAYMENTS

| | CONSOLIDATED | | COMPANY | |
|---|---------------------|-------------|----------------|-------------|
| | December 31 | | | |
| | 2001 | 2000 | 2001 | 2000 |
| Government agencies | 49 | 57 | - | - |
| Dividend receivable from investee companies | - | 8 | 23 | 8 |
| Investee companies | 1 | 2 | 1 | 1 |
| Employees | 3 | 2 | - | - |
| Future tax benefits (see Note 18) | 10 | 20 | - | - |
| Prepaid expenses | 13 | 17 | - | - |
| Other | 39 | 44 | 2 | 2 |
| | 115 | 150 | 26 | 11 |

Note 6 - INVENTORIES - CONSOLIDATED

| | December 31 | |
|--|--------------------|-------------|
| | 2001 | 2000 |
| Finished goods | 159 | 154 |
| Merchandise | 125 | 123 |
| Work in process | 135 | 103 |
| Raw and auxiliary materials | 221 | 311 |
| Inventories of buildings and apartments for sale | 10 | 15 |
| Merchandise and materials in transit and payments on account | 4 | 14 |
| | 654 | 720 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 7 - LONG-TERM DEPOSITS, LOANS AND RECEIVABLES

A. COMPOSITION

| | CONSOLIDATED | | COMPANY | |
|---|--------------|------|---------|------|
| | December 31 | | | |
| | 2001 | 2000 | 2001 | 2000 |
| Deposits and loans: | | | | |
| Banks | 30 | 46 | - | - |
| IDB Group companies | 1 | 14 | - | - |
| Investee company | 17 | - | 17 | - |
| Other | 31 | 59 | - | - |
| | 79 | 119 | 17 | - |
| Less - current maturities | 39 | 37 | - | - |
| | 40 | 82 | 17 | - |
| Deposits in excess of accrued severance pay (see Note 19) | 4 | 3 | 1 | - |
| | 44 | 85 | 18 | - |

B. LINKAGE TERMS AND INTEREST RATES

| | CONSOLIDATED | | | COMPANY | | |
|------------------------------------|-------------------------------|------|------|-------------------------------|------|------|
| | December 31 | | | | | |
| | Annual interest rate (*) % | 2001 | 2000 | Annual interest rate (*) % | 2001 | 2000 |
| Banks and others: | | | | | | |
| Linked to the Consumer Price Index | 5.8 | 48 | 91 | 5 | 17 | - |
| In or linked to the U.S. dollar | 4.3 | 17 | 8 | - | - | - |
| Not linked | - | 13 | 6 | - | - | - |
| | | 78 | 105 | | 17 | - |
| Companies in the IDB Group: | | | | | | |
| Linked to the Consumer Price Index | 4 | 1 | 13 | - | - | - |
| In or linked to the U.S. dollar | - | - | 1 | - | - | - |
| | | 1 | 14 | | - | - |
| | | 79 | 119 | | 17 | - |

(*) Weighted average rate as of December 31, 2001.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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

C. MATURITIES AS OF DECEMBER 31, 2001

| <u>Year</u> | <u>CONSOLIDATED</u> | <u>COMPANY</u> |
|---------------------------|---------------------|----------------|
| 2002 - current maturities | 39 | - |
| 2003 | 8 | - |
| 2004 | 1 | - |
| 2005 | 1 | - |
| 2006 | 1 | 1 |
| 2007 - 2011 | 7 | 7 |
| 2012 and thereafter | 9 | 9 |
| Not yet determined | 13 | - |
| | <u>79</u> | <u>17</u> |

D. CLASSIFICATION OF BALANCES OF LOANS AND OTHER RECEIVABLES ACCORDING TO SIZE AS OF DECEMBER 31, 2001.

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

| <u>Size of balances NIS millions</u> | <u>CONSOLIDATED</u> | | <u>COMPANY</u> | |
|--|------------------------------------|--------------|------------------------------------|--------------|
| | <u>Number of borrowers</u> | <u>Total</u> | <u>Number of borrowers</u> | <u>Total</u> |
| Up to 1 | 43 | 4 | - | - |
| From 1 to 10 | 1 | 2 | - | - |
| More than 10 | 3 | 42 | 1 | 17 |
| | <u>47</u> | <u>48</u> | <u>1</u> | <u>17</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES

A. COMPOSITION

| | <u>CONSOLIDATED</u> | | <u>COMPANY</u> | |
|---|---------------------|--------------|----------------|--------------|
| | <u>December 31</u> | | | |
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Shares | | | | |
| Subsidiaries | - | - | 2,485 | 3,267 |
| Associated companies | 1,323 | 1,873 | 439 | 560 |
| Total (1) | 1,323 | 1,873 | 2,924 | 3,827 |
| Convertible debentures of associated company (2) | 8 | 5 | - | - |
| Loans and other receivables (3) | 2 | 2 | 768 | 342 |
| | <u>1,333</u> | <u>1,880</u> | <u>3,692</u> | <u>4,169</u> |
| Presented as follows: | | | | |
| Investments | 1,380 | 1,928 | 3,728 | 4,169 |
| Other long-term liabilities | (47) | (48) | (36) | - |
| | <u>1,333</u> | <u>1,880</u> | <u>3,692</u> | <u>4,169</u> |

(1) Composition of investment in shares

| | <u>CONSOLIDATED</u> | | <u>COMPANY</u> | |
|---|---------------------|--------------|----------------|--------------|
| | <u>December 31</u> | | | |
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Cost and post-acquisition earnings until January 1, 1992 | 1,779 | 1,905 | 3,593 | 3,623 |
| Post-acquisition net earnings (losses) subsequent to 1992 | (446) | 75 | (759) | 218 |
| Accumulated capital reserves subsequent to 1992: | | | | |
| Differences arising from financial statements of certain investees restated to foreign currency | (19) | (116) | 27 | (77) |
| Other reserves | 9 | 9 | 63 | 63 |
| | <u>1,323</u> | <u>1,873</u> | <u>2,924</u> | <u>3,827</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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

| | CONSOLIDATED (Associated companies) | | | COMPANY (Subsidiaries) | | |
|--|--|----------|----------|----------------------------------|------------|------------|
| | December 31 | | | | | |
| | Number of borrowers (*) | 2001 | 2000 | Number of borrowers (*) | 2001 | 2000 |
| Shekel loans (unlinked): | | | | | | |
| Interest bearing at the rate of increase in the Consumer Price Index | | - | - | 6 | 720 | 314 |
| Non-interest bearing | 1 | 1 | 1 | | - | - |
| Loans linked to the Consumer Price Index: | | | | | | |
| Interest bearing | | - | - | 1 | 47 | - |
| Non-interest bearing | | - | - | | - | 24 |
| Unlinked non-interest bearing capital notes | 1 | 1 | - | 1 | 1 | 4 |
| Loan linked to the U.S. dollar non-interest bearing | | - | 1 | | - | - |
| | | <u>2</u> | <u>2</u> | | <u>768</u> | <u>342</u> |

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

Company - Repayment dates of unlinked shekel loans have not yet been fixed. Loans linked to the Consumer Price Index bear interest at the rate of 5% per annum and are repayable in nine equal installments commencing in 2006.

(*) As of December 31, 2001.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

B. MOVEMENT OF INVESTMENTS IN 2001 IS AS FOLLOWS:

| | CONSOLIDATED | | COMPANY | |
|---|----------------------|--------------|----------------------|-------|
| | Associated companies | Subsidiaries | Associated companies | Total |
| Balance at beginning of year | 1,880 | 3,609 | 560 | 4,169 |
| Movement during the year: | | | | |
| Investments: | | | | |
| In shares | 172 | 356 | 23 | 379 |
| In loans and current accounts, net | - | 425 | 1 | 426 |
| In convertible debentures | 4 | - | - | - |
| Sale of investments | - | (317) | - | (317) |
| Losses on changes in holdings in investee companies, net | (29) | - | - | - |
| Disposal in respect of company whose consolidation was terminated | (12) | - | - | - |
| Group's equity in losses, net | (488) | (618) | (32) | (650) |
| Provision for decrease in value of investments | (257) | (37) | (101) | (138) |
| Dividends | (11) | (219) | - | (219) |
| Translation differences | 97 | 79 | 25 | 104 |
| Other changes | (23) | (26) | (36) | (62) |
| Balance at end of year | 1,333 | 3,252 | 440 | 3,692 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

C. INVESTMENTS IN MARKETABLE SECURITIES

| | CONSOLIDATED | | | | | |
|--|--|---|---|--------------|---|--|
| | December 31, 2001 | | | | | |
| | Amortization in respect of decrease in value in 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, 2001 | Market value as of March 17, 2001 (*) |
| Affiliated companies | | | | | | |
| American Israeli Paper Mills Ltd | - | 204 | 90 | 294 | 228 | 200 |
| Fundtech Ltd | 91 | 115 | (7) | 108 | 96 | 80 |
| Shamir Mivtach Holdings Ltd | 9 | 25 | - | 25 | 24 | 20 |
| Cargal Ltd | - | 33 | - | 33 | 19 | 18 |
| ECI Telecom Ltd | 91 | 464 | (27) | 437 | 347 | 277 |
| Scitex Corporation Ltd | 60 | 252 | (19) | 233 | 192 | 143 |
| Nova Ltd | 3 | 41 | (3) | 38 | 58 | 55 |
| Shellcase Ltd | - | 15 | (1) | 14 | 43 | 51 |
| Maman-Cargo Terminals and Handling Ltd | - | 30 | - | 30 | 28 | 30 |
| Gold-Bond Group Ltd | - | 7 | - | 7 | 5 | 6 |
| | <u>254</u> | <u>1,186</u> | <u>33</u> | <u>1,219</u> | <u>1,040</u> | <u>880</u> |
| COMPANY | | | | | | |
| December 31, 2001 | | | | | | |
| | Amortization in respect of decrease in value in 2001 | Investment in shares included in the balance sheet | Required adjustments in respect of translation statements of investee companies | Total | Market value as of December 31, 2001 | Market value as of March 17, 2001 (*) |
| Subsidiaries | | | | | | |
| Polgat Ltd | - | 120 | 8 | 128 | 44 | 45 |
| Affiliated companies | | | | | | |
| American Israeli Paper Mills Ltd | - | 204 | 90 | 294 | 228 | 200 |
| Fundtech Ltd | 91 | 115 | (7) | 108 | 96 | 80 |
| Shamir Mivtach Holdings Ltd | 9 | 25 | - | 25 | 24 | 20 |
| Gold-Bond Group Ltd | - | 7 | - | 7 | 5 | 6 |
| | <u>100</u> | <u>351</u> | <u>83</u> | <u>434</u> | <u>353</u> | <u>306</u> |
| | <u>100</u> | <u>471</u> | <u>91</u> | <u>562</u> | <u>397</u> | <u>351</u> |

(*) Based on the number of shares held by the Company and the group companies as of December 31, 2001.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

C. INVESTMENTS IN MARKETABLE SECURITIES (Cont.)

| | 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 | 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 |
| Subsidiaries | | | | | | | | |
| Clal Electronics Industries Ltd | - | - | - | - | 831 | 145 | 976 | 996 |
| Polgat Ltd | - | - | - | - | 156 | 21 | 177 | 68 |
| | - | - | - | - | 987 | 166 | 1,153 | 1,064 |
| Affiliated companies | | | | | | | | |
| American Israeli Paper Mills Ltd | 176 | 104 | 280 | 338 | 176 | 104 | 280 | 338 |
| Fundtech Ltd | 237 | 3 | 240 | 281 | 237 | 3 | 240 | 281 |
| Jaf-Ora Ltd | 76 | - | 76 | 90 | 76 | - | 76 | 90 |
| Shamir Mivtach Holdings Ltd | 38 | - | 38 | 39 | 38 | - | 38 | 39 |
| Cargal Ltd | 38 | - | 38 | 30 | - | - | - | - |
| ECI Telecom Ltd | 767 | - | 767 | 728 | - | - | - | - |
| Scitex Corporation Ltd | 413 | - | 413 | 288 | - | - | - | - |
| Nova Ltd | 58 | - | 58 | 88 | - | - | - | - |
| Shellcase Ltd | 4 | - | 4 | 26 | - | - | - | - |
| Maman-Cargo Terminals and Handling Ltd | 44 | - | 44 | 57 | - | - | - | - |
| Gold-Bond Group Ltd | 7 | - | 7 | 4 | - | - | - | - |
| | 1,858 | 107 | 1,965 | 1,969 | 527 | 107 | 634 | 748 |
| | 1,858 | 107 | 1,965 | 1,969 | 1,514 | 273 | 1,787 | 1,812 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

D. GOODWILL ON ACQUISITION OF INVESTEE COMPANIES CONSOLIDATED (relates to associated companies)

| | December 31 | |
|--|--------------------|-------------|
| | 2001 | 2000 |
| Goodwill (excess of cost of investments over fair value on acquisition) | 123 | 484 |
| Less - accumulated amortization | 50 | 148 |
| Unamortized balance | 73 | 336 |
| | | |
| Excess of fair value on acquisition over cost of investments (negative goodwill) | 43 | 13 |
| Less - accumulated amortization | 9 | 7 |
| Unamortized balance | 34 | 6 |

COMPANY

| | December 31 | | | |
|--|---------------------|-----------------------------|--------------|--------------|
| | 2001 | | 2000 | |
| | Subsidiaries | Associated companies | Total | Total |
| Goodwill (excess of cost of investments over fair value on acquisition) | 21 | 97 | 118 | 273 |
| Less - accumulated amortization | 6 | 33 | 39 | 83 |
| Unamortized balance | 15 | 64 | 79 | 190 |
| | | | | |
| Excess of fair value on acquisition over cost of investments (negative goodwill) | 57 | 52 | 109 | 65 |
| Less - accumulated amortization | 20 | 15 | 35 | 22 |
| Unamortized balance | 37 | 37 | 74 | 43 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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 | |
|-----------------------|-------------|------|
| | 2001 | 2000 |
| Current assets | 406 | 6 |
| Non-current assets | 1,300 | 2 |
| Current liabilities | 459 | 4 |
| Long-term liabilities | 528 | - |
| Minority interests | 7 | - |

| | For the year ended December 31 | | |
|--------------------|--------------------------------|------|------|
| | 2001 | 2000 | 1999 |
| Revenues, net | 1,292 | 17 | 915 |
| Costs and expenses | 1,188 | 14 | 770 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEES COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2001

- In the light of changes in the mode of operation of CEI following the completion of the merger (including the financing of its operations by means of credit facilities made available to the company by other Group companies), the investment in CEI, which had previously been treated as an investment in an autonomous company, is now treated, as of the third quarter of 2001, as an investment in a company whose operations are integral to those of the parent company. The financial statements of CEI, which had previously been adjusted by reference to changes in the exchange rate of the U.S. dollar, are now, as of the third quarter of 2001, adjusted by reference to changes in the Consumer Price Index. Adjustments stemming from the translation of the financial statements of CEI are reflected in the financial statements on the basis of the amounts appearing in the financial statements as of June 30, 2001.
- During the course of 2001, CEI acquired further shares in ECI Telecom Ltd. ("ECI"), for NIS 41,000. That part of the consideration for these further shares which exceeded their carrying value, in an amount of NIS 30,000, was attributed to intangible assets of ECI.
- On June 12, 2001, six class actions were brought by shareholders against ECI and against some of the company's former and existing managers and directors. The actions are class actions which have been brought in the names of investors in the shares of ECI in the period between May 2, 2000 and February 14, 2001 (the investment period). The plaintiffs allege the existence of deception, a misleading series of transactions, and the publication of a misleading set of financial statements, all of which adversely affected investors in the shares of ECI during the investment period.

On August 24, 2001, the Court ordered the plaintiffs to combine the six actions into a single class action, and on September 28, 2001, the Court appointed a leading plaintiff and a leading representative to represent all the other plaintiffs. On October 5, 2001, the representative plaintiff made an initial submission of the combined class action, which was dismissed by the Court.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2001 (Cont.)

- On December 7, 2001, the representative plaintiff submitted a second combined class action ("the second action") against ECI, the managing director of ECI and the company's former vice-president, finance, alleging breach of Sections 10(B) and 10(B)-5 of the U.S. Securities Exchange Act, 1934 ("the Act"), and against the managing director of ECI and its former vice-president, finance, under Section 20A of the Act.

At a hearing on January 18 and 23, 2002, the Court dismissed the dismissal petition of ECI. The parties jointly submitted a timetable to the Court with respect to the hearing of the case. The timetable has not yet been approved by the Court.

Management of ECI consider the actions to be totally devoid of substance, and intends to contest the actions vigorously.

- In December 2001, an agreement was entered into between ECI and a group of investors ("the Dovrat Group"), under the terms of which the Dovrat Group will invest \$50 million in ECI in consideration for the issuance by ECI of 13,160,000 shares. The shares issued provide the Dovrat Group with 12.5% of the ownership and control of ECI. The agreement laid down guidelines with respect to the appointment of representatives of the Dovrat Group to the Board of Directors of ECI. The agreement was completed on February 12, 2002, after certain prior conditions set out in the agreement had been met. Subsequent to the above allotment, the Company's holding in ECI fell, and the Company recorded a loss of NIS 29,000 in the year under review. Subsequent to the above allotment, and the purchase of further shares by CII in February 2002, the rate of holding of shares in ECI by CII was approximately 14.5%.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2001 (Cont.)

- In August 2001, the Company sold 25% of its holdings in Mashav Initiating and Development Ltd. ("Mashav") to CRH plc ("CRH"), a company operating in the construction materials and cement sector, for NIS 596 million. As a result of the sale, the Company's holding in Mashav fell to 75%. A net capital gain of NIS 259 million arising on the sale has been recorded in the Company's financial statements.

In addition, CRH has been granted, for no consideration, a call option ("the option") for the purchase of a further 25% of the Company's holdings in Mashav, such that, subsequent to exercise of the option, the Company and CRH will have identical holdings in Mashav. The option is exercisable at half-yearly intervals during the period commencing December 31, 2001 and ending December 31, 2003.

The parties have agreed that the exercise price of the option shall be determined by reference to the higher of, on the one hand, a company valuation of \$750 million, from which shall be deducted the financial liabilities of Mashav as of the date of the exercise, and, on the other hand, such an amount as shall be determined by multiplying the earnings of Neshor Israel Cement Works Ltd. ("Neshor") before taxes, depreciation and financing expenses, for the twelve months preceding the date of exercise of the option, by a factor of 6.8, and adding thereto the sum of \$80 million, and deducting therefrom the amount of the financial liabilities of Mashav as of the date of the exercise.

During the vesting period and in the period subsequent to any exercise of the option, the parties will engage in joint management of Mashav. In the event that the option is not exercised, CRH will have proportionate representation on the Board of Directors of Mashav, and will also enjoy certain minority rights.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2001 (Cont.)

Shortly before implementation of the transaction, Mashav paid a dividend of NIS 392 million. In addition, shortly before implementation of the transaction, the Company acquired from Mashav, certain real estate assets, together with certain financial assets, for a consideration of NIS 145 million. The assets acquired have been entered in the Company's accounting records at their carrying value.

In the wake of the above sale, and as of June 30, 2001, the financial statements of Mashav are proportionately consolidated with those of the Company. The financial statements of Mashav had previously been wholly consolidated with those of the Company.

The assets of Mashav which ceased to be reflected in the Company's consolidated balance sheet on June 30, 2001, totaled NIS 659,000. The revenues of Mashav for the six months ended June 30, 2001, which are not reflected in the Company's consolidated statement of operations, total NIS 286,000. The net income of Mashav for the same period excluded from the Company's consolidated statement of operations, amounts to NIS 14,000.

- In October 2001, under the terms of a purchase offer announced in September 2001, the Company and the Israel Refrigeration Co. acquired all the shares of Jaf-Ora Ltd. ("Jaf-Ora") held by the general public. Following the purchase offer, the Company's holdings in Jaf-Ora increased from 27.4% to 30.4%. The cost of the shares acquired by the Company under the purchase offer amounted to NIS 11 million. Upon conclusion of the implementation of the purchase offer, the shares of Jaf-Ora ceased to be traded on the Tel Aviv Stock Exchange.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

F. PRINCIPAL CHANGES IN 2001 (Cont.)

- During the course of 2001, Clal Biotechnological Industries Ltd. ("CBI"), a wholly-owned subsidiary of the Company, invested NIS 27 million in shares of, and options issued by, MTRE – Advanced Technologies Ltd. ("MTRE"). The investment provides CBI with approximately 9.7% of the share capital of MTRE (8.5% on a fully-diluted basis). In light of the extent of the representation of CBI on the Board of Directors of MTRE, CBI is in a position to exercise a considerable degree of influence on the affairs of that company. The above investment resulted in goodwill on acquisition of NIS 22,000, which is being amortized at an annual rate of 20%. MTRE operates in the field of medical appliances.
- In October 2001, CBI invested a further NIS 33,000 in D-Pharm Ltd. ("D-Pharm"). In addition, options were granted to CBI, for no consideration, for a further investment of \$2 million. If CBI were to exercise all the options it holds, the rate of that company's holding in D-Pharm would be approximately 20% (on a fully-diluted basis).

G. CONVERTIBLE SECURITIES AND OPTIONS

- (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 20 million (2000 - NIS 23 million) was included in respect thereof in consideration of an expected decrease in holding rates.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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):

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>US dollar thousands</u> | | |
| December 31, 2001 | | | |
| Trade receivables | 300,753 | 12,426 | 313,179 |
| Inventories | 274,640 | (4,228) | 270,412 |
| Investments | 36,541 | - | 36,541 |
| Other assets | 82,918 | 1,840 | 84,758 |
| Trade payables | 79,776 | - | 79,776 |
| Other payables | 180,780 | 177 | 180,957 |
| Financial instrument revaluation reserve | 1,800 | (1,800) | - |
| Total shareholders' equity | 754,856 | 9,861 | 764,717 |
| December 31, 2000 | | | |
| Trade receivables | 405,711 | 47,792 | 453,503 |
| Inventories | 390,301 | (15,412) | 374,889 |
| Investments | 49,212 | - | 49,212 |
| Other assets | 208,065 | 2,000 | 210,065 |
| Trade payables | 184,183 | - | 184,183 |
| Other payables | 212,190 | 1,175 | 213,365 |
| Capital reserve - Markeable securities available for sale | 1,298 | (1,298) | - |
| Total shareholders' equity | 1,157,430 | 33,205 | 1,190,635 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

H. (Cont.):

1. ECI (Cont.)

B. Effect on Statements of Operations

| | <u>As reported</u> | <u>Adjustment</u> | <u>Balance according to Israeli GAAP</u> |
|---|--------------------|-------------------|--|
| Year ended December 31, 2001 | | | |
| Sales | 1,014,629 | (35,366) | 979,263 |
| Cost of sales | 825,322 | (11,184) | 814,138 |
| Selling expenses | 155,684 | (1,598) | 154,086 |
| General and administrative expenses | 91,778 | - | 91,778 |
| Financing income | 33,776 | 1,475 | 35,251 |
| Financing expenses | (27,806) | - | (27,806) |
| Other income (expenses), net | (32,768) | - | (32,768) |
| Income taxes | (221) | (30) | (251) |
| Company's equity in results of investee companies, net | (983) | - | (983) |
| Cumulative effect of change in accounting method | 1,703 | (1,703) | - |
| Net loss | (412,376) | (22,842) | (435,218) |
| 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 |
| General and administrative expenses | 87,597 | - | 87,597 |
| Financing income | 25,693 | 2,028 | 27,721 |
| Financing expenses | (11,325) | - | (11,325) |
| Other income (expenses), net | 34,635 | (11,171) | 23,464 |
| Income taxes | (416) | (849) | (1,265) |
| Company's equity in results of investee companies, net | (1,540) | - | (1,540) |
| Cumulative effect of change in accounting method | (27,923) | 27,923 | - |
| Net income (loss) | (91,410) | 21,332 | (70,078) |
| Year ended December 31, 1999 | | | |
| Other income, net | 50,892 | 11,171 | 62,063 |
| Taxes on income | (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 millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

H. (Cont.):

2. Scitex

A. Effect on Balance Sheets

| | As reported | Adjustment (1) | Balance according to Israeli GAAP |
|---|-------------------|-------------------|--|
| | Thousands of US\$ | | |
| December 31, 2001 | | | |
| Long term investments and receivables | 94,833 | (7,363) | 87,470 |
| Capital reserve in respect of differences from translation of financial statements | 7,740 | (6,953) | 787 |
| Retained deficit | (110,422) | (410) | (110,832) |
| Total shareholders' equity (deficit) | 263,935 | (7,363) | 256,572 |
| December 31, 2000 | | | |
| Associated companies | 376,174 | (115,025) | 261,149 |
| 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

| | As reported | Adjustment (1) | Balance according to Israeli GAAP |
|--|-------------------|-------------------|--|
| | Thousands of US\$ | | |
| Year ended December 31, 2001 | | | |
| Decline in value of investment in associated company presented on equity basis | (149,704) | 131,918 | (17,786) |
| Other expenses | (13,034) | 4,850 | (8,184) |
| Income taxes | (3,054) | (32,554) | (35,608) |
| Equity of company in losses of associated company | (64,762) | 11,207 | (53,555) |
| Net income (loss) | (250,276) | 115,421 | (134,855) |
| 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) |
| Accumulated effect of change in accounting policy | (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 millions of shekels of December 2001

Note 8 - INVESTMENTS IN INVESTEE COMPANIES (Cont.)

H. (Cont.):

2. Scitex (Cont.)

B. Effect on Income Statements (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. In 2001, a provision for decrease in value was recorded in respect of an investment in shares of Creo which was also not recorded in accordance with generally accepted accounting principles in Israel.
- (2) Implementation of Israeli GAAP in respect of comparative data of Scitex as of December 31, 2000 and 1999 does not have a material effect.

I. SUBSEQUENT EVENTS

In February 2002, the Company signed an agreement to sale all of its holdings (74%) in International Technologies (Laser) Ltd. ("ITL"), which is held through a wholly-owned subsidiary, to a group headed by the general manager of ITL in consideration for approximately US\$ 7 million ("the preliminary consideration"). The consideration is intended to reach up to approximately US\$ 7.5 million in certain circumstances. The net gain expected to be recorded in the books of the Company from the sale of ITL, taking into account the preliminary consideration only, is NIS 8 million.

Implementation of the agreement is subject to receipt of various approvals and fulfillment of various contingent conditions.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 9 - OTHER INVESTMENTS

A. COMPOSITION

| | CONSOLIDATED | | COMPANY | |
|---|---------------------|-------------|----------------|-------------|
| | December 31 | | | |
| | 2001 | 2000 | 2001 | 2000 |
| Investments in other units (nonmarketable): | | | | |
| Shares and partnership units in venture capital funds (1) | 212 | 238 | 76 | 80 |
| Other companies: (2) | | | | |
| Shares | 259 | 316 | 35 | 15 |
| Convertible debentures (3) | 49 | 101 | 2 | 40 |
| Loans (4) | 11 | 9 | - | - |
| Marketable securities - shares | 237 | 376 | 87 | 127 |
| | 768 | 1,040 | 200 | 262 |
| After amortization in respect of decrease in value which is not of a temporary nature | 409 | 80 | 73 | 65 |

- (1) Including loans (consolidated) in the amount of NIS 6 million (2000 - NIS 2 million).
- (2) Mainly in start-up and electronics sectors
- (3) Debentures linked to the U.S. dollar and bearing interest at a weighted rate of 5.6% per annum.
- (4) Composition:

| Borrowers' balance | Consolidated | |
|---------------------------|--------------------------------|---------------------|
| NIS millions | Number of borrowers | NIS millions |
| Up to 1 | 2 | 1 |
| From 1 to 2 | 1 | 1 |
| More than 2 | 1 | 9 |
| | 4 | 11 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 9 - OTHER INVESTMENTS

B. INVESTMENT IN LISTED COMPANIES

| | December 31, 2001 | | | | | | | |
|---|--|--|--|---|--|--|--|---|
| | Consolidated | | | | Company | | | |
| | Amortization in respect of Decrease in value in 2001 | Carring value of investment after amortization December 31, 2001 | Market value as of December 31, 2001 (*) | Market value as of March 17, 2001 (*) | Amortization in respect of Decrease in Value in 2001 | Carring value of investment after amortization December 31, 2001 | Market value as of December 31, 2001 | Market value as of March 17, 2001 (*) |
| Investments in shares whose decrease in value is not of a temporary nature | | | | | | | | |
| Orckit Communication Ltd | - | 35 | 42 | 34 | - | - | - | - |
| Tioga Technologies Ltd | 24 | 3 | 3 | 2 | - | - | - | - |
| Vocaltec Communications Ltd | 16 | 4 | 7 | 5 | - | - | - | - |
| Viryanet Ltd | 45 | 8 | 5 | 8 | 18 | 3 | 3 | 4 |
| B.V.R. Systems Ltd | 13 | 24 | 22 | 25 | 8 | 15 | 14 | 16 |
| B.V.R. Technologies Ltd | 20 | 9 | 5 | 4 | 18 | 7 | 4 | 4 |
| | <u>118</u> | <u>83</u> | <u>84</u> | <u>78</u> | <u>44</u> | <u>25</u> | <u>21</u> | <u>24</u> |
| Investment in other shares | | | | | | | | |
| Compugen Ltd | - | 58 | 63 | 54 | - | - | - | - |
| Ormat Industries Ltd | - | 57 | 75 | 73 | - | 39 | 48 | 47 |
| Other companies | - | 39 | 32 | 29 | - | 23 | 24 | 21 |
| | <u>-</u> | <u>154</u> | <u>170</u> | <u>156</u> | <u>-</u> | <u>62</u> | <u>72</u> | <u>68</u> |
| | <u>118</u> | <u>237</u> | <u>254</u> | <u>234</u> | <u>44</u> | <u>87</u> | <u>93</u> | <u>92</u> |

(*) Based on the number of shares held by the Company and the group companies as of December 31, 2001.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 9 - OTHER INVESTMENTS

B. INVESTMENT IN LISTED COMPANIES (Cont.)

| | December 31, 2000 | | | | | |
|---|--|--|---|--|--|---|
| | Consolidated | | | Company | | |
| | Provision in respect of decrease in value in 2000 | Carrying value of investment after provision December 31, 2000 | Market value as of December 31, 2000 | Provision in respect of decrease in value in 2000 | Carrying value of investment after provision December 31, 2000 | Market value as of December 31, 2000 |
| Investments in companies whose decrease in value is not of a temporary nature | | | | | | |
| Orkit Communication Ltd | 93 | 34 | 29 | - | - | - |
| Tioga Technologies Ltd | 94 | 28 | 25 | - | - | - |
| Vocaltec Communications Ltd | 24 | 19 | 11 | - | - | - |
| Viryanet Ltd | 24 | 54 | 37 | 12 | 21 | 14 |
| B.V.R. Systems Ltd | 20 | 37 | 26 | 14 | 23 | 17 |
| B.V.R. Technologies Ltd | 10 | 29 | 16 | 10 | 25 | 13 |
| Other companies | 22 | 13 | 12 | 20 | 13 | 12 |
| | <u>287</u> | <u>214</u> | <u>156</u> | <u>56</u> | <u>82</u> | <u>56</u> |
| Investments in other companies | | | | | | |
| Compugen Ltd | - | 58 | 78 | - | - | - |
| Ormat Industries Ltd | - | 57 | 95 | - | 39 | 61 |
| Other companies | - | 47 | 139 | - | 6 | 6 |
| | <u>-</u> | <u>162</u> | <u>312</u> | <u>-</u> | <u>45</u> | <u>67</u> |
| | <u>287</u> | <u>376</u> | <u>468</u> | <u>56</u> | <u>127</u> | <u>123</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 9 - OTHER INVESTMENTS (Cont.)

C. PRINCIPAL CHANGES IN 2001

- In January 2001, CBI invested a further NIS 44,000 (in addition to a previous investment of NIS 2,000), in shares of and options issued by a U.S. company, OralScan Laboratories Ltd. ("OralScan"). The consideration for the investment was approximately 9.6% of the capital of OralScan (approximately 11.5% on a fully-diluted basis).
- In May 2001, documents were signed relating to the establishment of FBR Infinity Ventures, LP ("the Infinity II Fund"). The fund operates through an Israel-registered partnership and a number of partnerships registered overseas. The investment commitments in the Infinity II Fund total \$53 million, of which the Company and CEI are committed to \$25 million (to be divided equally between the Company and CEI). As of December 31, 2001, only 15% of the commitment had been invested. If the Infinity II Fund should undertake an investment commitment of at least \$70 million, the commitments of the Company and CEI would rise by a further \$5 million, such further commitment to be divided equally between the two companies. The Company and CEI both participate in the management of the Fund.
- In June 2001, CBI disposed of its holdings in Pharmaceutical Resources Inc. ("PRI") for NIS 51,000. The Company's share of the resultant net gain amounted to NIS 46,000.

D. COMMITMENTS FOR INVESTMENT IN VENTURE CAPITAL FUNDS

The group has commitments for additional investments in venture capital funds in the amount of approximately \$50 million (Company - approximately \$27 million).

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 10 - FIXED ASSETS - CONSOLIDATED

A. COMPOSITION AND MOVEMENT

| | <u>Land and buildings</u> | <u>Machinery, plant and equipment</u> | <u>Motor vehicles and trailers</u> | <u>Office furniture and equipment</u> | <u>Total</u> |
|---|-------------------------------|---|--|---|--------------|
| COST - | | | | | |
| As of January 1, 2001 | 1,436 | 4,852 | 388 | 164 | 6,840 |
| Adjustment of balance at beginning of year (*) | 7 | 31 | 1 | 1 | 40 |
| Acquisitions | 40 | 74 | 11 | 18 | 143 |
| Decrease resulting from partial deconsolidation of subsidiaries | 313 | 1,118 | 69 | 14 | 1,514 |
| Disposals | 13 | 54 | 6 | 3 | 76 |
| As of December 31, 2001 | <u>1,157</u> | <u>3,785</u> | <u>325</u> | <u>166</u> | <u>5,433</u> |
| ACCUMULATED DEPRECIATION - | | | | | |
| As of January 1, 2001 | 709 | 3,300 | 281 | 124 | 4,414 |
| Adjustment of balance at beginning of year (*) | 4 | 23 | - | 1 | 28 |
| Provision | 19 | 224 | 7 | 16 | 266 |
| Decrease resulting from partial deconsolidation of subsidiaries | 127 | 857 | 46 | 11 | 1,041 |
| Cancellation in respect of disposals | 6 | 43 | 3 | 9 | 55 |
| As of December 31, 2001 | <u>599</u> | <u>2,647</u> | <u>239</u> | <u>127</u> | <u>3,612</u> |
| NET BOOK VALUE - | | | | | |
| As of December 31, 2001 | <u>558</u> | <u>1,138</u> | <u>86</u> | <u>39</u> | <u>1,821</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 millions of shekels of December 2001

Note 10 - FIXED ASSETS - CONSOLIDATED (Cont.)

B. SUPPLEMENTARY INFORMATION

(1) Land and buildings include:

| | <u>Total</u> |
|--|--------------|
| Freehold land | 849 |
| Leasehold land (leasehold rights are for various periods ending in 2030) | 24 |
| Excess cost attributed to property | 245 |
| | <u>1,118</u> |
| Leasehold rights and improvements | 39 |
| | <u>1,157</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 166 million (2000 - NIS 198 million).

C. DEPRECIATION

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

| | <u>Years</u> <u>%</u> |
|--------------------------------|--------------------------|
| Buildings | 2.0 - 20.0 |
| Machinery, plant and equipment | 4.5 - 33.3 |
| Motor vehicles and trailers | 10.0 - 20.0 |
| Office furniture and equipment | 6.0 - 33.3 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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

| | December 31 | | | |
|--|-------------|--|----------------|----------------|
| | 2001 | | 2000 | |
| | Cost | Accumulated depreciation or amortization | Net book value | Net book value |
| CONSOLIDATED | | | | |
| Goodwill arising on acquisition of subsidiaries: | | | | |
| Excess of cost over fair value | 154 | 113 | 41 | 105 |
| Excess of fair value over cost | 73 | 25 | 48 | 50 |
| | 81 | 88 | (7) | 55 |
| Real estate (includes buildings for rental) (*) | 269 | 66 | 203 | 224 |
| Know-how, patents and goodwill acquired | 7 | 1 | 6 | - |
| Deferred charges | 34 | 32 | 2 | 2 |
| | <u>391</u> | <u>187</u> | 204 | 281 |
| Land and equipment designated for disposal | | | 19 | 22 |
| | | | <u>223</u> | <u>303</u> |
| COMPANY | | | | |
| Real estate (including buildings for rent) (*) | 45 | 8 | 37 | 5 |
| Deferred charges | 18 | 16 | 2 | 2 |
| | <u>63</u> | <u>24</u> | <u>39</u> | <u>7</u> |

(*) 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 millions of shekels of December 2001

Note 12 - CURRENT LIABILITIES TO BANKS

| | CONSOLIDATED | | | COMPANY | | |
|---|-------------------------------|------|-------|-------------------------------|------|------|
| | December 31 | | | | | |
| | Annual interest rate (*) % | 2001 | 2000 | Annual interest rate (*) % | 2001 | 2000 |
| Short-term borrowings: | | | | | | |
| Unlinked | 4.6 | 493 | 1,120 | 4.2 | 241 | 584 |
| In or linked to foreign currency | 5.9 | 101 | 483 | - | - | 259 |
| Linked to the Consumer Price Index | 5.6 | 4 | - | - | - | - |
| | | 598 | 1,603 | | 241 | 843 |
| Current maturities of long-term debt | | 211 | 73 | | 112 | 25 |
| | | 809 | 1,676 | | 353 | 868 |

(*) Average rate as of December 31, 2001

COLLATERAL - see Note 23.

Note 13 - TRADE PAYABLES - CONSOLIDATED

| | December 31 | |
|----------------|-------------|------|
| | 2001 | 2000 |
| Open accounts | 240 | 300 |
| Checks payable | 19 | 5 |
| | 259 | 305 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 14 - OTHER PAYABLES

| | CONSOLIDATED | | COMPANY | |
|---------------------------------------|--------------|------|---------|------|
| | December 31 | | | |
| | 2001 | 2000 | 2001 | 2000 |
| Payroll and related expenses | 155 | 122 | - | - |
| Advances from customers | 9 | 8 | - | - |
| Government agencies | 26 | 21 | - | 1 |
| Accrued income taxes, net of advances | 15 | 24 | 1 | 1 |
| Accrued interest | 14 | 5 | 10 | 2 |
| Other payables and accrued expenses | 142 | 200 | 1 | 1 |
| | 361 | 380 | 12 | 5 |

Note 15 - OTHER CURRENT LIABILITIES

A. COMPOSITION

| | CONSOLIDATED | | | COMPANY | | |
|---|--------------------------|-------------|------|--------------------------|-------------|------|
| | Annual interest rate (*) | December 31 | | Annual interest rate (*) | December 31 | |
| | | 2001 | 2000 | | 2001 | 2000 |
| Investee companies: | | | | | | |
| Unlinked | 3.8% | 7 | - | 3.8% | 7 | 134 |
| Linked to the Consumer Price index | | - | - | | 7 | - |
| Linked to the U.S. dollar | 1.8% | 15 | - | 1.8% | 15 | 34 |
| IDB group Companies: | | | | | | |
| Unlinked | | - | 2 | | - | - |
| | | 22 | 2 | | 29 | 168 |
| Current maturities of long-term liabilities | | 26 | 40 | | 16 | 33 |
| | | 48 | 42 | | 45 | 201 |

(*) Average rate as of December 31, 2001.

B. COLLATERAL - see Note 23.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 16 - DEBENTURES (CONSOLIDATED AND COMPANY)

A.

| | Interest rate (1) | December 31 | |
|---|----------------------|-------------------|------------------|
| | | 2001 | 2000 |
| | | NIS millions | |
| Linked to the Consumer Price Index | | | |
| Listed for trading on the stock exchange (2) | 5.7% | 18 | 27 |
| Not listed for trading on the stock exchange | | | |
| Series I | 5.7% | 159 | - |
| Series J | 5.6% | 182 | - |
| | | <u>359</u> | <u>27</u> |
| Less current maturities | | 9 | 9 |
| | | <u><u>350</u></u> | <u><u>18</u></u> |

(1) Average rate as of December 31, 2001.

(2) Debentures (Series 7) listed for trading on the Tel Aviv Stock Exchange. The market value of the debentures as of December 31, 2001 was NIS 18 million.

SECURITY - see Note 23.

B. Repayment dates after balance sheet date

| | NIS millions |
|---------------------------|-------------------|
| 2002 - current maturities | <u>9</u> |
| 2003 | 9 |
| 2004 | - |
| 2005 | 154 |
| 2006 | 27 |
| 2007 to 2012 | <u>160</u> |
| | <u>350</u> |
| | <u><u>359</u></u> |

C. In January 2002, the Company issued in a private issuance non-marketable Series J1 debentures in the amount of approximately NIS 100 million to institutional entities. The debentures are linked to the Consumer Price Index and bear interest at the rate of 4.5% per annum. All the debentures are redeemable in August 2005.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 17 - LONG-TERM LOANS

A. COMPOSITION:

| | <u>CONSOLIDATED</u> | | <u>COMPANY</u> | |
|----------------------------|---------------------|-------------|----------------|-------------|
| | <u>December 31</u> | | | |
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Banks | 636 | 527 | 255 | 174 |
| Companies in the IDB Group | 26 | 52 | 12 | 17 |
| Subsidiaries | - | - | 279 | 228 |
| Other | 14 | 38 | - | - |
| | <u>676</u> | <u>617</u> | <u>546</u> | <u>419</u> |
| Less - current maturities | <u>218</u> | <u>98</u> | <u>115</u> | <u>46</u> |
| | <u>458</u> | <u>519</u> | <u>431</u> | <u>373</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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 | |
| | | 2001 | 2000 | | 2001 | 2000 |
| Linked to the Consumer Price Index - | | | | | | |
| Banks and others | 6.1 | 548 | 304 | 6.2 | 255 | 133 |
| Companies in the IDB Group | 7.5 | 18 | 44 | 7.5 | 12 | 17 |
| Subsidiaries | | - | - | - | 279 | 226 |
| | | <u>566</u> | <u>348</u> | | <u>546</u> | <u>376</u> |
| In or linked to foreign currency - | | | | | | |
| U.S. dollar | | | | | | |
| Banks and others | 3.8 | 48 | 196 | | - | 43 |
| Other currencies | | | | | | |
| Banks and others | 3.3 | 12 | 34 | | - | - |
| | | <u>60</u> | <u>230</u> | | <u>-</u> | <u>43</u> |
| Unlinked | | | | | | |
| Banks and others | 8.2 | 42 | 26 | | - | - |
| Capital notes | | | | | | |
| Companies in the IDB Group | - | 8 | 8 | | - | - |
| Minority shareholders | | - | 5 | | - | - |
| | | <u>50</u> | <u>39</u> | | <u>-</u> | <u>-</u> |
| | | <u>676</u> | <u>617</u> | | <u>546</u> | <u>419</u> |

(*) Average rate as of December 31, 2001.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 17 - LONG-TERM LOANS (Cont.)

C. MATURITIES AS OF DECEMBER 31, 2001

| Year | CONSOLIDATED | | | COMPANY | | | |
|---------------------------|------------------|----------------------------|-------|---------|----------------------------|--------------|-------|
| | Banks and others | Companies in the IDB Group | Total | Banks | Companies in the IDB Group | Subsidiaries | Total |
| 2002 - current maturities | 216 | 5 | 218 | 112 | 3 | - | 115 |
| 2003 | 287 | 4 | 291 | 143 | 3 | 279 | 425 |
| 2004 | 75 | 4 | 79 | - | 3 | - | 3 |
| 2005 | 58 | 5 | 63 | - | 3 | - | 3 |
| 2006 | 11 | - | 11 | - | - | - | - |
| 2007 and thereafter | 2 | - | 2 | - | - | - | - |
| Not yet determined | 4 | 8 | 12 | - | - | - | - |
| | 650 | 26 | 676 | 255 | 12 | 279 | 546 |

D. COLLATERAL - See Note 23.

Note 18 - DEFERRED TAXES - CONSOLIDATED

A. COMPOSITION - DEFERRED TAXES IN RESPECT OF:

| | December 31 | |
|---|-------------|------|
| | 2001 | 2000 |
| Depreciable assets | 257 | 308 |
| Restatement of inventories | 1 | 2 |
| Temporary differences in recognition of income and expenses | (55) | (65) |
| Loss carryforwards (1) | (10) | (16) |
| | 193 | 229 |

- (1) In respect of losses for tax purposes of subsidiaries in the amount of NIS 29 million. Additionally, the Company has losses for tax purposes amounting to NIS 91 million and other subsidiaries have losses for tax purposes amounting to NIS 434 million, the tax benefits in respect of which will be included upon realization.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 18 - DEFERRED TAXES - CONSOLIDATED

A. COMPOSITION - DEFERRED TAXES IN RESPECT OF (Cont.):

- (2) Deferred taxes are computed at the average tax rate of approximately 32%-36% (2000 - 31%) and are presented in the balance sheet as follows:

| | December 31 | |
|---|-------------|------------|
| | 2001 | 2000 |
| Long-term liabilities | 203 | 249 |
| In current assets - deferred tax benefits (*) | (10) | (20) |
| | <u>193</u> | <u>229</u> |

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

B. Net movement in deferred taxes

| | For the year ended December 31 | |
|--|-----------------------------------|------------|
| | 2001 | 2000 |
| Balance at beginning of year | 229 | 122 |
| Disposal in respect of company whose consolidation was terminated | (54) | - |
| Addition in respect of company which entered into consolidation | - | 91 |
| Amount credited to statement of operations | 18 | 16 |
| Balance at end of year | <u>193</u> | <u>229</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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.

B. COMPOSITION OF AMOUNTS IN BALANCE SHEET

| | December 31 | |
|--|--------------------|-------------|
| | 2001 | 2000 |
| Termination benefit obligation | 125 | 188 |
| Less - deposits with severance pay funds | 26 | 67 |
| | <u>99</u> | <u>121</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 | |
|--|--------------------|-------------|
| | 2001 | 2000 |
| Deposits with severance pay funds (includes NIS 4 in a severance pay fund managed by the IDB Group; 2000 - the same) | 4 | 5 |
| Less - termination benefit obligation | - | 2 |
| | <u>4</u> | <u>3</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 20 - OTHER LONG-TERM LIABILITIES

| | <u>CONSOLIDATED</u> | | <u>COMPANY</u> | |
|---|---------------------|-------------|----------------|-------------|
| | <u>December 31</u> | | | |
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Excess of Company's equity in losses of investee companies over investments | 47 | 48 | 36 | - |
| Net liabilities with respect to commitments to implement land development works | 20 | 25 | - | - |
| Liabilities in connection with acquisition of shares of investee companies | - | 10 | - | 4 |
| | <u>67</u> | <u>83</u> | <u>36</u> | <u>4</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, 2001, for -

| | <u>NIS millions</u> |
|---------------------|-------------------------|
| Subsidiaries | 102 |
| IDB group companies | 5 |

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 millions of shekels of December 2001

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 10 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.

A subsidiary received a warning of cancellation of letters of approval as an Approved Enterprise stating that it did not fulfill the required conditions. The amount of the investment grants received in respect of the letters of approval and which are included in the warning is NIS 14.2 million (including linkage and interest). Management of the subsidiary is examining the subsidiary's compliance with the conditions of the letters of approval in relation to the economic circumstances in which it operates.

In light of the above, management of the subsidiary believes that no material loss is expected in respect of this warning.

COLLATERAL - see Note 23.

B. COMMITMENTS

- For investment in fixed assets of approximately NIS 4 million.
- For the leasing of land and buildings for various periods through 2029. Anticipated lease payments for 2001 amount to approximately NIS 69 million.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 21 - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

(2) COMPANY

CONTINGENT LIABILITIES

As of December 31, 2001 the Company provided a guarantee to a subsidiary in favor of an IDB Group company in the amount of NIS 5 million.

Note 22 - SHARE CAPITAL

A. COMPOSITION

| | December 31 | |
|--------------------|------------------|-------------|
| | 2001 | 2000 |
| | Number of shares | |
| Authorized | 170,000,000 | 150,000,000 |
| Issued and paid-up | 156,862,252 | 140,333,644 |

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 2001, 16,528,608 ordinary shares of NIS 1 were issued in connection with the merger of Clal Electronics - see Note 1C.

B. EMPLOYEE OPTIONS - see Note 32.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 23 - LIENS

COLLATERALIZED LIABILITIES - SUBSIDIARIES

| | As of December 31, 2001 |
|---|--|
| | NIS |
| | millions |
| Current liabilities to banks and others | 159 |
| Long-term liabilities to banks and to others (including current maturities) | 81 |

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 millions of shekels of December 2001

Note 23 - LIENS (Cont.)

COLLATERAL (Cont.)

As of December 31, 2001, 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 millions</u> |
|---|-------------------------|
| Long-term liabilities: | |
| Debentures (including current maturities) | 18 |
| Companies in the IDB Group | 12 |

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 47 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. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 2001 put currency options for sale of British sterling against United States dollars, shekels and Euro in a nominal amount of approximately Stg. 10.5 million, for purposes of hedging expected cash flows in British sterling. A subsidiary wrote call currency options in order to decrease the financing costs of the said hedge, in a nominal amount of approximately Stg. 10.5 million. Also, as of December 31, 2001 a subsidiary has forward transactions for sale of United States dollars against shekels in an amount of approximately US\$ 3,135 thousand.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 24 - FINANCIAL INSTRUMENTS – CONSOLIDATED (Cont.)

C. DERIVATIVE FINANCIAL INSTRUMENTS

The book value of most of the financial instruments is similar to their fair value.

D. CURRENCY EXPOSURE

As of December 31, 2001, the excess of monetary assets over monetary liabilities, in or linked to foreign currency, was NIS 91 million, which included an excess of current liabilities of NIS 72 million.

In addition, the excess of monetary assets over monetary liabilities, unlinked to the Consumer Price Index, was NIS 711 million, of which approximately NIS 675 million excess of current liabilities are linked to or denominated in foreign currency.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 25 - OTHER INCOME (EXPENSES), NET

| | CONSOLIDATED | | | COMPANY | | |
|--|--------------------------------|--------------|------------|-----------|-------------|-------------|
| | For the year ended December 31 | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Gain (loss) on disposal of investments, net (*) - | | | | | | |
| Subsidiaries | 269 | 4 | (18) | 268 | (5) | (13) |
| Associated companies | (29) | 42 | 550 | - | 4 | 5 |
| Other companies | 70 | 157 | 1 | (1) | 12 | 1 |
| Write-down of investments | (666) | (369) | (54) | (211) | (65) | (17) |
| Disposal of other assets | 6 | 7 | 6 | - | - | - |
| Amortization of goodwill in investee companies, net | (15) | (16) | (10) | - | - | - |
| Depreciation of cost of research and development in process on acquisition of investee company | - | - | (39) | - | - | (39) |
| Losses on closure and curtailment of production lines and relocation of plants | (61) | (39) | (23) | - | - | - |
| Other income | (6) | 18 | 2 | (9) | 30 | (2) |
| | <u>(432)</u> | <u>(196)</u> | <u>415</u> | <u>47</u> | <u>(24)</u> | <u>(65)</u> |
| (*) Includes net gain (loss) from changes in holdings due to issuance of shares and conversion of convertible securities - | | | | | | |
| Subsidiaries | - | 4 | (18) | - | (5) | (14) |
| Associated companies | (29) | 35 | 82 | - | (5) | 6 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 26 - COST OF SALES AND SERVICES - CONSOLIDATED

| | For the year ended December 31 | | |
|--|--------------------------------|--------------|--------------|
| | 2001 | 2000 | 1999 |
| Materials used and cost of merchandise sold | 968 | 1,087 | 638 |
| Salaries and related expenses | 455 | 466 | 283 |
| Contract work | 146 | 242 | 69 |
| Depreciation and amortization | 217 | 228 | 122 |
| Research and development costs (net of grants and participations – NIS 8 million; 2000 - NIS 9 million; 1999 - NIS 4 million) | 28 | 24 | 14 |
| Other manufacturing expenses | 390 | 391 | 307 |
| | <u>2,204</u> | <u>2,438</u> | <u>1,433</u> |
| Changes in finished goods and work in process inventories | (26) | (42) | 51 |
| | <u>2,178</u> | <u>2,396</u> | <u>1,484</u> |

Note 27 - SELLING AND MARKETING EXPENSES - CONSOLIDATED

| | For the year ended December 31 | | |
|---------------------------------|--------------------------------|------------|------------|
| | 2001 | 2000 | 1999 |
| Salaries and related expenses | 128 | 119 | 87 |
| Advertising | 26 | 28 | 25 |
| Depreciation | 16 | 13 | 13 |
| Rental and building maintenance | 101 | 93 | 91 |
| Commissions and royalties | 30 | 25 | 23 |
| Other | 73 | 63 | 45 |
| | <u>374</u> | <u>341</u> | <u>284</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 28 - GENERAL AND ADMINISTRATIVE EXPENSES

| | CONSOLIDATED | | | COMPANY | | |
|--------------------------------------|--------------------------------|------------|------------|----------|----------|----------|
| | For the year ended December 31 | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Salaries and related expenses | 111 | 111 | 89 | - | - | - |
| Participation in management expenses | 5 | 5 | 9 | 4 | 4 | - |
| Depreciation | 12 | 12 | 10 | 1 | 1 | 1 |
| Rental and building maintenance | 17 | 19 | 15 | - | - | - |
| Professional fees | 16 | 18 | 14 | - | - | - |
| Doubtful accounts | 2 | - | 1 | - | - | - |
| Other | 42 | 39 | 34 | 1 | 1 | 1 |
| | <u>205</u> | <u>204</u> | <u>172</u> | <u>6</u> | <u>6</u> | <u>2</u> |

Note 29 - FINANCING EXPENSES (INCOME), NET

| In respect of: | CONSOLIDATED | | | COMPANY | | |
|--|--------------------------------|------------|-------------|-----------|-----------|----------|
| | For the year ended December 31 | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Cash, loans, deposits and short-term liabilities | 71 | 126 | (7) | 35 | 57 | (3) |
| Trade receivables and payables; other receivables and payables | (7) | (1) | (2) | - | - | - |
| marketable securities | (1) | 19 | (18) | - | 11 | (1) |
| Long-term loans and deposits | | | | | | |
| Convertible debentures | (6) | (3) | (22) | (7) | (2) | (4) |
| Debentures | 10 | 3 | 3 | 10 | 3 | 2 |
| Long-term loans | 39 | 13 | 19 | 22 | 8 | 7 |
| Forward exchange transactions | 1 | - | 3 | - | - | - |
| | <u>107</u> | <u>157</u> | <u>(24)</u> | <u>60</u> | <u>77</u> | <u>1</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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 | | |
|--|---------------------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| Current taxes | 120 | 81 | 59 |
| Deferred taxes | (18) | 16 | (10) |
| | <u>102</u> | <u>97</u> | <u>49</u> |
| Provisions for taxes in respect of previous years, net | 12 | 1 | - |
| | <u>114</u> | <u>98</u> | <u>49</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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 | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Taxes computed at regular tax rate of 36% | (279) | (44) | 288 | (241) | (32) | 157 |
| Increase (decrease) in tax liability due to: | | | | | | |
| Losses and benefits for tax purposes in respect of which deferred taxes were not provided | 39 | 37 | 32 | 39 | 40 | 11 |
| Utilization of carryforward losses and tax benefits | (3) | (14) | (5) | - | - | - |
| Income included net of tax, income exempt from tax, non-deductible expenses (*) or income subject to reduced tax rates | 352 | 132 | (242) | 202 | (8) | (168) |
| Reduced tax rate for approved enterprises | (32) | (49) | (29) | - | - | - |
| Differences in definition of capital and assets for tax purposes | 24 | 32 | 6 | - | - | - |
| Taxes in respect of prior years | 12 | 1 | - | - | - | - |
| Other differences | 1 | 3 | (1) | - | - | - |
| | <u>114</u> | <u>98</u> | <u>49</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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 30 - TAXES ON INCOME (Cont.)

D. Tax assessments were issued to wholly-owned subsidiaries of the Company according to best estimates for the years 1998 to 2000, according to which they are required to pay additional tax (including accrued interest and linkage) in the amount of approximately NIS 50 million. The subsidiaries submitted their opposition to the assessments issued. The financial statements include a provision which in the opinion of management of the Company is reasonable.

E. FINAL TAX ASSESSMENTS

The Company has paid self assessment up to and including 1997. Principal subsidiaries have received final assessments (including self assessments which are considered to be final) for years ranging from 1992 through 2000.

Note 31 - RELATED PARTIES

A. Group companies conduct transactions in 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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 31 - RELATED PARTIES (Cont.)

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

| | December 31 | |
|---|-------------|------|
| | 2001 | 2000 |
| (1) Banks | | |
| Assets: | | |
| Loans and deposits | 30 | 33 |
| Liabilities: | | |
| Current liabilities | 279 | 643 |
| Long-term liabilities (see Note 17) | 464 | 345 |
| (2) Others | | |
| Assets: | | |
| Short-term investments - | | |
| Short-term loans | - | 16 |
| Other receivables | 1 | 1 |
| Deposits, long-term loans and receivables - | | |
| Long-term loans (see Note 7) | 1 | 14 |
| Accrued severance pay | 4 | 5 |
| Liabilities: | | |
| Other payables and accrued expenses | 1 | 2 |
| Other current liabilities | - | 2 |
| Long-term liabilities (see Note 17) | | |
| Capital notes | 8 | 8 |
| Other | 18 | 44 |

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

C. A subsidiary participates in the expenses of a IDB Group company in the amount of NIS 2 million (2000 - NIS 5 million; 1999 - NIS 6 million).

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 31 - RELATED PARTIES (Cont.)

- D. Remuneration of directors and general manager (included in the consolidated and Company statements of operations):

| | For the year ended December 31 | | |
|--|--------------------------------|-------|-------|
| | 2001 | 2000 | 1999 |
| Remuneration of directors; (9 directors) | 545 | 479 | 415 |
| Remuneration of General Manager | 1,760 | - | - |
| Compensation of former General Manager | 1,687 | 7,361 | 4,422 |

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

- 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.

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 1 million. 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, 2001, 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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(1) August 1997 Plan (Cont.)

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 2001 options were exercised and as of December 31, 2001, 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, 2001 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, 1999 and are exercisable commencing October 8, 2001 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.
- The third portion of 217,000 options were granted on October 8, 2000 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.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(1) August 1997 Plan (Cont.)

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 10.36. 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 millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(2) January 2001 Plan

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 1,298,322 options convertible into 1,298,322 ordinary shares of NIS 1 par value each of the Company (subject to adjustments), of which 402,685 options were granted to the general manager of the Company. The options were granted on May 20, 2001. The price of the Company's shares on the stock exchange close to the date of the allocation was NIS 25.69.

The options may be exercised in four equal portions. The first portion may be exercised during the two years following the second year after the grant date. The second portion may be exercised during the two years following the third year after the grant date. The third and fourth portions may be exercised during the two years following the fourth and fifth years after the grant date, respectively.

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%.

Accordingly, the basic exercise price was fixed at NIS 31.85 per share.

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 millions of shekels of December 2001, 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 B(1) above.

Economic value of the options:

| <u>Portion</u> | <u>NIS</u> |
|----------------|------------|
| First | 12.83 |
| Second | 14.48 |
| Third | 15.92 |
| Fourth | 17.21 |

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 total economic value of the options (as of the date of approval of the plan), as stated above, is approximately NIS 20.7 million, of which NIS 6 million related to options granted to the general manager of the Company.

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

(3) August 2001 Plan

On August 22, 2001, the Board of Directors of the Company decided to approve a plan according to which options will be granted without consideration to senior managers in the Group and to position holders in the Group up to 746,778 options convertible into 746,778 ordinary shares of NIS 1 par value of the Company (subject to adjustments). The options are convertible at prices linked to the known Consumer Price Index as of the date of the actual exercise.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

B. OPTIONS GRANTED BY THE COMPANY (Cont.)

(3) August 2001 Plan (Cont.)

The first, second, third and fourth portions are exercisable during the two years following the second, third, fourth and fifth years after the grant date, respectively.

According to the plan, the exercise price of the first portion ("the basic exercise price") will be the average closing rate of one share in the 30 days of trading which preceded the date of the decision of the Board of Directors regarding the approval of the plan less 10%.

Accordingly, the basic exercise price was fixed at NIS 23.29 per share.

The exercise price of the second, third and fourth portions will be determined according to the lower of the average closing rate in the 30 days of trading preceding the date of the end of the first, second and third years, respectively, after 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.

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

The options were allocated after balance sheet date, in January 2002.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

C. OPTIONS GRANTED BY CLAL ELECTRONICS

As part of the process of the merger of the Company with Clal Electronics, which was implemented through exchange of shares (see Note 1C.), options granted to employees by Clal Electronics were converted to options for the acquisition of shares of the Company ("the new options") according to a conversion ratio fixed for purposes of the share exchange, so that all senior position holders in Clal Electronics received 12 new options in consideration for each option which they held according to the original plan. The exercise price of the new options, which replaced the options for which an exercise price was fixed prior to finalization of the merger process, will be 1/12 of the exercise price fixed for the replacement options. The other conditions of the new options will be materially similar to the conditions of the options for acquisition of shares of Clal Electronics. Accordingly, the exercise prices, quantities of options and share prices of Clal Electronics are presented in these financial statements in accordance with the new conversion ratio.

(1) Plan from 1997

In September 1997 the General Meeting of the Shareholders of Clal Electronics approved a plan according to which options will be granted without consideration to senior managers in Clal Electronics, up to 15,366 options convertible to 15,366 ordinary shares of NIS 1 par value of Clal Electronics (subject to adjustments).

The options were granted in three equal portions. The first portion was granted in November 1997; the second portion at the end of one year from the date of the grant of the first portion and the third portion at the end of two years from the same date. The vesting period of the options is three years from the end of two years from the date of their grant.

According to the plan, the exercise price of the first portion was fixed at 10% lower than the average share price of the company on the stock exchange in the period prior to the grant as stated in the plan, linked to the United States dollar. The exercise price of the second and third portions will be the average share prices of the company on the stock exchange in the period prior to the grant of each portion as stated in the plan, linked to the United States dollar, but not more than the exercise price of the first portion, linked to the United States dollar.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

C. OPTIONS GRANTED BY CLAL ELECTRONICS (Cont.)

(1) Plan from 1997 (Cont.)

The balance of the options remaining as of December 31, 2001 was 61,464 options (after adjustments) which are convertible to 61,464 ordinary shares of NIS 1 par value of the company during three years as from November 2000, and 30,744 options (after adjustments) which are convertible to 30,744 ordinary shares of the company during three years as from November 2001.

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

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

(2) Plan from 2001

In February the General Meeting of the Shareholders of Clal Electronics approved a plan according to which options will be granted without consideration to senior managers in Clal Electronics, up to 41,192 options convertible to 41,192 ordinary shares of NIS 1 par value of Clal Electronics (subject to adjustments). The options were granted in March 2001 ("the date of the grant of the options").

After the merger with Clal Electronics, the number of options was adjusted to up to 494,304 options convertible to 494,304 ordinary shares of NIS 1 par value of the company (after adjustments).

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

C. OPTIONS GRANTED BY CLAL ELECTRONICS (Cont.)

(2) Plan from 2001 (Cont.)

The first, second, third and fourth portions are exercisable during the two years following the second, third, fourth and fifth years after the grant date, respectively.

According to the plan, the exercise price of the first portion will be linked to the Consumer Price Index ("the basic exercise price") and will be the average closing rate of one share in the 30 days of trading which preceded the date of the decision of the Board of Directors regarding the 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 rate in the 30 days of trading preceding the date of the end of the first, second and third years, respectively, after 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.

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

The average economic value of each option is NIS 17.36 (after adjustment). This economic value was calculated according to the Black-Scholes formula for valuation of options, taking into account the price of Clal Electronics' shares on the stock exchange as of the date of approval of the plan by the Board of Directors of Clal Electronics and with a weekly standard deviation of 6.94%.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

C. OPTIONS GRANTED BY CLAL ELECTRONICS (Cont.)

(2) Plan from 2001 (Cont.)

The economic value of the options, as stated above, which is offered in the plan for the General Manager of Clal Electronics is approximately NIS 2 million.

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

- (3) In the plan of January 2001, 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 price of an ordinary share in Scitex as of the date of the approval of the plan was U.S.\$14.375.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001, except per share data

Note 32 - EMPLOYEE STOCK OPTIONS (Cont.)

- D. Data in respect of Company share prices on the Tel Aviv 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 IDB | | | | Options for shares of Clal Electronics Industries (*) | |
| | Plan from August 1997 | Plan from August 2001 | Plan from January 2001 | Plan from August 1997 | Plan from January 2001 | Plan from September 1997 |
| | NIS | | | | | |
| Share prices on the Stock Exchange: | | | | | | |
| On date plan was approved by the Parent company's Board of Directors | 123.92 | 25.62 | 30.47 | 23.11 | 34.83 | 46.33 |
| On date portions were granted: | | | | | | |
| First portion | - | 24.36 | 25.69 | 22.97 | 30.17 | 51.42 |
| Second portion | - | - | - | 20.95 | - | 49.00 |
| Third portion | 132.30 | - | - | 29.85 | - | 57.50 |
| Exercise price of the portions: | | | | | | |
| First portion | - | 23.29 | 31.88 | 20.75 | 43.44 | 45.39 |
| Second portion | - | - | - | 19.30 | - | 45.39 |
| Third portion | 111.47 | - | - | 20.75 | - | 45.39 |

- (*) During 2001, the conditions of the options were changed so that they will be convertible to shares of the Company and therefore all data are presented after adjustment (divided by 12) - see C. above.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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 | | | | | | | | |
|-------------------------------------|--------------------------------|---------|-------|----------|---------|-------|----------|---------|-------|
| | 2001 | | | 2000 | | | 1999 | | |
| | Domestic | Foreign | Total | Domestic | Foreign | Total | Domestic | Foreign | Total |
| Cement | 915 | - | 915 | 1,269 | - | 1,269 | 729 | - | 729 |
| Textiles | 680 | 760 | 1,440 | 661 | 585 | 1,246 | 619 | 373 | 992 |
| High-tech and electronics | 6 | 71 | 77 | 5 | 82 | 87 | 6 | 70 | 76 |
| Communication services | 18 | - | 18 | 17 | - | 17 | 13 | - | 13 |
| Other industries | 560 | - | 560 | 650 | - | 650 | 322 | - | 322 |
| | 2,179 | 831 | 3,010 | 2,602 | 667 | 3,269 | 1,689 | 443 | 2,132 |
| Foreign sales by geographical area: | | | | | | | | | |
| North America | | 263 | | | 219 | | | 158 | |
| Europe | | 452 | | | 407 | | | 224 | |
| Other countries | | 116 | | | 41 | | | 61 | |
| | | 831 | | | 667 | | | 443 | |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

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 | | | | | |
|---------------------------|---------------------------------|---|---------------------------------|---|---------------------------------|---|
| | 2001 | | 2000 | | 1999 | |
| | 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 | 414 | - | 245 | - | 135 | - |
| Textiles | (19) | - | 19 | - | 25 | 13 |
| High-tech and electronics | (617) | (485) | (311) | (139) | 501 | 118 |
| Paper and cardboard | - | 13 | - | 29 | - | 24 |
| Communication services | (6) | - | 74 | 15 | 1 | 9 |
| Venture capital funds | (93) | - | 34 | - | (13) | - |
| Biotechnology | 49 | (27) | (4) | (8) | (1) | (3) |
| Other industries | 93 | 11 | 75 | 6 | (41) | 9 |
| | <u>(179)</u> | <u>(488)</u> | <u>132</u> | <u>(97)</u> | <u>607</u> | <u>170</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of December 2001

Note 33 - BUSINESS SEGMENTS (Cont.)

C. SEGMENT ASSETS EMPLOYED

| | December 31 | | | | | |
|--|-------------------|--|-------|-------------------|--|-------|
| | 2001 | | | 2000 | | |
| | Segment assets | Investments in associated companies | Total | Segment assets | Investments in associated companies | Total |
| Cement | 1,610 | - | 1,610 | 2,052 | - | 2,052 |
| Textiles | 1,062 | | 1,062 | 1,026 | - | 1,026 |
| High-tech and electronics | 183 | 903 | 1,086 | 711 | 1,524 | 2,235 |
| Paper and cardboard | - | 236 | 236 | - | 214 | 214 |
| Communication services | 16 | - | 16 | 14 | - | 14 |
| Venture capital funds | 244 | - | 244 | 263 | - | 263 |
| Biotechnology | 165 | 86 | 251 | 117 | 23 | 140 |
| Other industries (including assets serving all segments) | 948 | 155 | 1,103 | 1,044 | 167 | 1,211 |
| | 4,228 | 1,380 | 5,608 | 5,227 | 1,928 | 7,155 |

Note 34 - EARNINGS PER SHARE

| | For the year ended December 31 | | |
|---|--------------------------------|------|------|
| | 2001 | 2000 | 1999 |
| Number of shares and net income used in computing earnings per share: | | | |
| Weighted average number of shares used in calculation of earnings per share (in millions) | 148 | 140 | 140 |
| Net income (loss) used in computation | (669) | (89) | 434 |

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

#

CLAL INDUSTRIES AND INVESTMENTS LTD.

COMPANY FINANCIAL STATEMENT DATA IN NOMINAL VALUES

In millions of shekels

Appendix A to the Financial Statements

A. CONDENSED BALANCE SHEETS

| | December 31 | |
|--|--------------------|--------------|
| | 2001 | 2000 |
| Investments in investee companies and others | 3,127 | 4,154 |
| Other assets and deferred charges | 34 | 1 |
| Monetary items, net | (683) | (1,374) |
| Shareholders' equity, see C below | <u>2,478</u> | <u>2,781</u> |

B. STATEMENTS OF OPERATIONS

| | For the year ended December 31 | | |
|---|---------------------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| REVENUES | | | |
| Equity in net earnings (losses) of investee companies | (512) | 155 | 522 |
| Other income, net | (45) | 8 | 3 |
| | <u>(557)</u> | <u>163</u> | <u>525</u> |
| COST AND EXPENSES | | | |
| General and administrative expenses | 5 | 6 | 1 |
| Financing expenses | 78 | 81 | 12 |
| | <u>83</u> | <u>87</u> | <u>13</u> |
| Net income (loss) | <u>(640)</u> | <u>76</u> | <u>512</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

COMPANY FINANCIAL STATEMENT DATA IN NOMINAL VALUES

In millions 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, 1999 | 140 | 140 | 2,073 | 2,353 |
| Dividend | - | - | (160) | (160) |
| Net income | - | - | 512 | 512 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance as of January 1, 2000 | 140 | 140 | 2,425 | 2,705 |
| Net income | - | - | 76 | 76 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance as of January 1, 2001 | 140 | 140 | 2,501 | 2,781 |
| Realization of options into shares | 17 | 320 | - | 337 |
| Net income | - | - | (640) | (640) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance as of December 31, 2001 | <u>157</u> | <u>460</u> | <u>1,861</u> | <u>2,478</u> |

CLAL INDUSTRIES AND INVESTMENTS LTD.

Appendix B to the Financial Statements

PRINCIPAL INVESTEE COMPANIES

| Name of Company | Holding Company (*) | Ownership and control % |
|--|--|-------------------------|
| American Israeli Paper Mills Ltd. | Clal Industries and Investments Ltd. | 33.0 |
| Applied Radiation - Jordan Valley Ltd. | Clal Electronics Industries Ltd. | 57.1 |
| Aprion Digital Ltd. | Clal Electronics Industries Ltd. | 14.5 |
| 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. | 71.6 |
| Clal Electronics Industries 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

| <u>Name of Company</u> | <u>Holding Company (*)</u> | <u>Ownership and control %</u> |
|--|--|--|
| D-Pharm Ltd. | Clal Biotechnology Industry. | 27.0 |
| ECI Telecom Ltd. | Clal Electronics Industries Ltd. | 15.6 |
| F.B.R. Infinity Ventures (Israel) | Clal Electronics Industries Ltd. Clal Industries and Investments Ltd. | 48.9 48.9 |
| Fundtech Ltd. | Clal Industries and Investments Ltd. | 28.5 |
| Golf Kitan Fashion House Ltd. | Kitan Consolidated Ltd. | 100.0 |
| Infinity Israel Venture Capital Fund (Israel) (limited partnership) | Clal Electronics Industries Ltd. Clal Industries and Investments Ltd. | 59.3 39.5 |
| International Technologies (Lasers) Ltd. | Clal Electronics Industries Ltd. | 74.2 |
| Jaf-Ora Ltd. | Clal Industries and Investments Ltd. | 30.4 |
| 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. Multiples Investments and Developments Ltd. | 12.7 26.0 |

CLAL INDUSTRIES AND INVESTMENTS LTD.

Appendix B to the Financial Statements (cont.)

PRINCIPAL INVESTEE COMPANIES

| <u>Name of Company</u> | <u>Holding Company (*)</u> | <u>Ownership and control %</u> |
|--|--|--------------------------------|
| Mashav Initiating and Development Ltd. | Clal Industries and Investments Ltd. | 75.0 |
| Millennium Materials Technologies Funds L.P. | Clal Industries and Investments Ltd. | 50.0 |
| Mivtach Shamir Holdings Ltd. | Clal Industries and Investments Ltd. | 14.7 |
| Multiple Investments and Developing 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. | 21.1 |
| Polgat Ltd. | Clal Industries and Investments Ltd. | 70.8 |
| Polgat Textiles (1960) Ltd. | Polgat Ltd. | |
| 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 |

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