

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

AS OF DECEMBER 31, 2003

Clal Industries and Investments Ltd.

FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

Adjusted to the NIS of December 2003

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Consolidated Balance Sheets

Adjusted to the NIS of December 2003

	Note	As at Dec-31	
		2003	2002
		Adjusted NIS, millions	
<u>Current Assets</u>			
Cash and cash equivalents		250	59
Short-term investments	3	174	125
Accounts Receivable - Trade	4	451	458
Other accounts receivable	5	136	87
Inventories	6	613	701
		<u>1,624</u>	<u>1,430</u>
<u>Long-term deposits, loans and receivables</u>	7	<u>12</u>	<u>42</u>
<u>Long-term investments</u>			
Investee companies	8	1,199	1,327
Other	9	445	559
		<u>1,644</u>	<u>1,886</u>
<u>Fixed Assets</u>			
Cost	10	5,707	5,689
Less - accumulated depreciation		<u>4,044</u>	<u>3,930</u>
		<u>1,663</u>	<u>1,759</u>
<u>Other Assets and Deferred Charges</u>	11	<u>224</u>	<u>(* 231)</u>
		<u>5,167</u>	<u>5,348</u>

*) Reclassified.

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

Consolidated Balance Sheets

Adjusted to the NIS of December 2003

	Note	As at Dec-31	
		2003	2002
		Adjusted NIS, millions	
<u>Current Liabilities</u>			
Credit from banks	12	808	902
Trade payables	13	303	303
Other accounts payable	14	368	320
Other current liabilities	15	36	69
		<u>1,515</u>	<u>1,594</u>
<u>Long-Term Liabilities</u>			
Debentures	16	905	465
Loans	17	252	311
Deferred Taxes	29	230	(* 237)
Accrued post-retirement/post-employment benefits	18	133	100
Other liabilities	19	29	31
		<u>1,549</u>	<u>1,144</u>
<u>Minority Interests</u>		<u>95</u>	<u>103</u>
<u>Contingent Liabilities and Engagements</u>	20		
<u>Shareholders' equity</u>	21	<u>2,008</u>	<u>2,507</u>
		<u>5,167</u>	<u>5,348</u>

*) Reclassified.

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

Balance Sheets - Company

Adjusted to the NIS of December 2003

	Note	As at Dec-31	
		2003	2002
		Adjusted NIS, millions	
<u>Current Assets</u>			
Cash and cash equivalents		77	-
Short-term investments	3	330	206
Other accounts receivable	5	41	8
		<u>448</u>	<u>214</u>
<u>Long-term deposits, loans and receivables</u>	7	<u>2</u>	<u>49</u>
<u>Investments</u>			
Investee companies	8	3,114	3,604
Other	9	131	106
		<u>3,245</u>	<u>3,710</u>
<u>Other Assets and Deferred Charges</u>	11	<u>38</u>	<u>39</u>
		<u>3,733</u>	<u>4,012</u>

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

Balance Sheets - Company

Adjusted to the NIS of December 2003

	Note	As at Dec-31	
		2003	2002
		Adjusted NIS, millions	
<u>Current Liabilities</u>			
Credit from banks	12	401	457
Accounts payable	14	16	17
Other current liabilities	15	33	53
		<u>450</u>	<u>527</u>
<u>Long-Term Liabilities</u>			
Debentures	16	905	465
Loans	17	367	507
Other liabilities	19	3	6
		<u>1,275</u>	<u>978</u>
<u>Contingent Liabilities and Engagements</u>	20		
<u>Shareholders' equity</u>	21	<u>2,008</u>	<u>2,507</u>
		<u>3,733</u>	<u>4,012</u>

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

Consolidated Statements of Income

Adjusted to the NIS of December 2003

	Note	For the year ended December 31		
		2003	2002	2001
		Adjusted NIS, millions (Except loss per share data)		
<u>Revenues, net</u>				
Sales and services		2,702	2,690	3,146
Equity in losses of investee companies	8f	(12)	(* (223)	(* (786)
		<u>2,690</u>	<u>2,467</u>	<u>2,360</u>
<u>Costs and expenses</u>				
Cost of sales and services	24	1,908	1,939	2,276
Selling and marketing expenses	25	419	389	391
General & Administrative Expenses	26	196	191	214
Other expenses, net	27	163	(* 198)	(* 175)
Financial expenses, net	28	117	78	112
		<u>2,803</u>	<u>2,795</u>	<u>3,168</u>
Loss before taxes on income		(113)	(328)	(808)
Taxes on Income	29	10	69	119
Loss after taxes on income		(123)	(397)	(927)
Minority interest in losses (earnings) of consolidated subsidiaries, net		(6)	(21)	229
Net loss		<u>(129)</u>	<u>(418)</u>	<u>(698)</u>
Loss per NIS 1 par value of ordinary shares (adjusted NIS)	33	<u>(0.82)</u>	<u>(2.66)</u>	<u>(4.72)</u>

*) Reclassified.

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

Statements of Income - Company

Adjusted to the NIS of December 2003

	Note	For the year ended December 31		
		2003	2002	2001
		Adjusted NIS, millions		
Equity in losses of investee companies, net		67	320	(* 831)
General & Administrative Expenses	26	6	7	6
Other expenses (income), net	27	20	58	(* (201))
Financial expenses, net	28	49	33	62
Loss before taxes on income		(142)	(418)	(698)
Tax benefit	29	13	-	-
Net loss		<u>(129)</u>	<u>(418)</u>	<u>(698)</u>

(* Reclassified)

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

Statements of Changes in Shareholders' Equity

Adjusted to the NIS of December 2003

	Share capital	Capital Reserves *)	Retained Earnings		Total
			Dividend announced subsequent to balance sheet date	Undistributed retained earnings	
Adjusted NIS, millions					
<u>Balance as at January 1, 2001</u>	1,239	(22)	-	1,963	3,180
Issue of share capital	18	348	-	-	366
Differences arising from financial statements of investee companies adjusted to foreign currency, net	-	109	-	-	109
Net loss	-	-	-	(698)	(698)
<u>Balance as at December 31, 2001</u>	1,257	435	-	1,265	2,957
Differences arising from financial statements of investee companies adjusted to foreign currency	-	11	-	-	11
Write-down of investment in investee company against capital reserves in respect of differences arising from financial statements adjusted to foreign currency	-	(43)	-	-	(43)
Net loss	-	-	-	(418)	(418)
<u>Balance as at December 31, 2002</u>	1,257	403	-	847	2,507
Differences arising from financial statements of investee companies adjusted to foreign currency	-	(64)	-	-	(64)
Dividend	-	-	-	(306)	(306)
Net loss	-	-	-	(129)	(129)
Dividend announced subsequent to balance sheet date	-	-	270	(270)	-
<u>Balance as at December 31, 2003</u>	<u>1,257</u>	<u>339</u>	<u>270</u>	<u>142</u>	<u>2,008</u>

Statements of Changes in Shareholders' Equity (Continued)

Adjusted to the NIS of December 2003

(* Composition:

	As at December 31		
	2003	2002	2001
	Adjusted NIS, millions		
Capital Reserves			
Premium on shares	574	574	574
Capitalized earnings	23	23	23
Expired warrants of investee companies	12	12	12
Erosion of capital note issued to a company in the IDB Group	5	5	5
	614	614	614
Differences arising from financial statements of investee companies adjusted to foreign currency	(275)	(211)	(179)
	<u>339</u>	<u>403</u>	<u>435</u>

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

Consolidated Statements of Cash Flows
Adjusted to the NIS of December 2003

	For the year ended December 31		
	2003	2002	2001
	Adjusted NIS, millions		
<u>Cash Flows from Operating Activities</u>			
Net loss	(129)	(418)	(698)
Adjustments required to reflect cash flows from operating activities (a)	459	693	911
Net cash provided by operating activities	330	275	213
<u>Cash Flows from Investing Activities</u>			
Acquisition of fixed and other assets	(72)	(77)	(149)
Investment grant received	-	-	1
Acquisition of newly-consolidated subsidiaries (b)	6	(20)	(5)
Investments in associated and other companies	(99)	(142)	(349)
Decrease in marketable securities, net	3	11	15
Proceeds from realization of fixed assets	13	14	63
Proceeds from realization of investments	88	26	106
Proceeds from sale of previously-consolidated subsidiaries (c)	-	33	588
Decrease (increase) in short-term deposits and loans, net	(24)	(80)	6
Short-term investments in IDB Group companies, net	(28)	-	17
Increase in deposits and long-term loans	(8)	(40)	(17)
Collection of long-term loans granted to IDB Group companies	-	2	14
Collection of long-term loans and other receivables	40	45	21
Net cash provided by (used in) investing activities	(81)	(228)	311
<u>Cash Flows from Financing Activities</u>			
Receipt of loans and other long-term liabilities:			
Banks and others	99	200	422
Issue of debentures	440	108	353
Repayment of loans and other long-term liabilities:			
Banks and others	(352)	(262)	(274)
Companies in the IDB Group	(5)	(6)	(27)
Redemption of debentures	(10)	(10)	(10)
Short-term credit from banks, net	101	(70)	(996)
Increase (decrease) in other current liabilities, net	(10)	11	27
Dividend paid to minority interest in subsidiaries	(14)	(36)	(22)
Dividend distributed	(306)	-	-
Net cash used in financing activities	(57)	(65)	(527)
<u>Translation Differences in Respect of Cash Balances Held by Autonomous Investee Companies</u>			
	(1)	-	3
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	191	(18)	-
<u>Cash and Cash Equivalents at Beginning of Year</u>	59	77	77
<u>Cash and Cash Equivalents at End of Year</u>	250	59	77

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

Consolidated Statements of Cash Flows

Adjusted to the NIS of December 2003

	For the year ended		
	December 31		
	2003	2002	2001
	Adjusted NIS, millions		
(a) <u>Adjustments required to reflect cash flows from operating activities</u>			
Income and expenses not involving cash flows:			
Minority interest in earnings (losses) of consolidated subsidiaries, net	6	21	(229)
Equity in losses of associated companies, net *)	53	239	798
Losses (gains) from realization of investments, net	14	(15)	(324)
Impairment of investments and assets	88	208	420
Losses of partnerships	10	12	12
Depreciation and amortization	171	249	321
Gain from realization of fixed and other assets, net	(4)	(2)	(6)
Deferred taxes, net	(48)	5	17
Increase (decrease) in accrued post-retirement/post-employment benefits, net	34	(3)	(12)
Erosion of assets and liabilities, net	-	1	8
Changes in asset and liability items:			
Decrease (increase) in receivables and prepayments	9	19	(92)
Decrease (increase) in inventories	70	(33)	50
Increase (decrease) in payables	56	(8)	(52)
	459	693	911
(* Dividends received	41	16	12
(b) Acquisition of newly-consolidated subsidiaries (including additional investment in proportionately consolidated subsidiary)			
Assets and liabilities of subsidiaries as at the date of acquisition:			
Deficit in working capital (working capital), excluding cash	3	(4)	-
Investments in investee and other companies	8	-	-
Fixed assets, other assets and deferred charges	(13)	(21)	(5)
Long-Term Liabilities	7	5	-
Minority Interests	1	-	-
	6	(20)	(5)

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

Consolidated Statements of Cash Flows
Adjusted to the NIS of December 2003

	For the year ended December 31		
	2003	2002	2001
	Adjusted NIS, millions		
(c) <u>Proceeds from Realization of Investments in Previously-Consolidated Subsidiaries (Including Transition from Full to Proportionate Consolidation)</u>			
Assets and liabilities of subsidiaries as at the date of sale -			
Working capital (deficit in working capital), excluding cash	-	26	(168)
Investments, fixed assets, other assets and deferred charges	2	6	491
Long-Term Liabilities	(1)	-	(14)
Minority Interests	-	(11)	(2)
Gain (loss) on realization of investment	(1)	12	281
	<u>-</u>	<u>33</u>	<u>588</u>
(d) <u>Non-Cash Operations</u>			
Acquisition of fixed assets on credit	<u>7</u>	<u>2</u>	<u>-</u>
Transfer of inventories to fixed assets	<u>2</u>	<u>-</u>	<u>-</u>
Issue of shares in exchange for shares of subsidiary	<u>-</u>	<u>-</u>	<u>366</u>
Investments in investee and other companies and acquisition of assets on credit	<u>-</u>	<u>8</u>	<u>1</u>
Sale of investment in companies for credit	<u>-</u>	<u>13</u>	<u>-</u>
Sale of fixed assets for credit	<u>-</u>	<u>1</u>	<u>-</u>

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

Statements of Cash Flows - Company

Adjusted to the NIS of December 2003

	For the year ended December 31		
	2003	2002	2001
	Adjusted NIS, millions		
<u>Cash Flows from Operating Activities</u>			
Net loss	(129)	(418)	(698)
Adjustments required to reflect cash flows from operating activities (a)	166	417	862
Net cash provided by (used in) operating activities	37	(1)	164
<u>Cash Flows from Investing Activities</u>			
Granting of long-term loans to investee companies	(8)	(188)	(445)
Redemption of capital notes, net	219	-	-
Investments in investee and other companies	(100)	(42)	(62)
Acquisition of real estate	-	-	(49)
Proceeds from realization of investments	2	15	613
Collection of loans granted to investee companies	104	83	104
Collection of loans granted to others	27	-	-
Granting of loans to others	-	-	(19)
Short-term loan to proportionately-consolidated subsidiary, net	(65)	(89)	-
Investment in marketable securities, net	-	1	-
Short-term investments in an IDB Group company, net	(56)	(23)	-
Net cash provided by (used in) investing activities	123	(243)	142
<u>Cash Flows from Financing Activities</u>			
Short-term credit from banks, net	59	34	(629)
Redemption of commercial securities, net	(9)	-	-
Receipt (repayment) of short-term loans from investee companies	-	-	(145)
Receipt of long-term loan from banks	29	81	147
Receipt of long-term loan from investee company	39	171	69
Issue of debentures	440	108	353
Repayment of long-term loan from bank	(171)	(112)	(66)
Repayment of loans from IDB Group companies	(3)	(4)	(5)
Repayment of loans from investee company and from others	(151)	(25)	(19)
Redemption of debentures	(10)	(10)	(10)
Dividend distributed	(306)	-	-
Net cash provided by (used in) financing activities	(83)	243	(305)
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	77	(1)	1
<u>Cash and Cash Equivalents at Beginning of Year</u>	-	1	-
<u>Cash and Cash Equivalents at End of Year</u>	77	-	1

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

Statements of Cash Flows - Company
Adjusted to the NIS of December 2003

	For the year ended December 31		
	2003	2002	2001
	Adjusted NIS, millions		
(a) <u>Adjustments required to reflect cash flows from operating activities</u>			
Income and expenses not involving cash flows:			
Equity in losses of investee companies, net *)	153	378	1,036
Gain (loss) from realization of investments in investee and other companies and losses of partnerships	11	11	(260)
Impairment of investments	17	52	69
Depreciation and amortization	-	2	1
Change in deferred taxes	(13)	-	-
Erosion of assets and liabilities, net	1	(56)	-
Changes in asset and liability items:			
Decrease (increase) in receivables and prepayments	(2)	20	9
Increase (decrease) in payables	(1)	10	7
	<u>166</u>	<u>417</u>	<u>862</u>
(* Dividends received)	<u>86</u>	<u>58</u>	<u>205</u>
(b) <u>Significant Non-Cash Operations</u>			
Sale of investment in associated company for credit	<u>-</u>	<u>11</u>	<u>-</u>
Issue of shares in exchange for shares of subsidiary	<u>-</u>	<u>-</u>	<u>366</u>
Investment in capital notes of investee companies against loans, net	<u>-</u>	<u>704</u>	<u>-</u>

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

Notes to the Financial Statements

Note 1: GeneralA. Company Description

The Company is an investment company whose principal holdings are in industry and in high technology. For details regarding business segments, see Note 32. Items in the statement of income are classified and presented in conformity with the nature of the operations of the Group.

- B. 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 the disclosure of contingent assets and liabilities in the financial statements and the reported amounts of revenues and expenses during the reporting periods. The actual results may differ from these estimates.

C. Definitions

In these financial statements -

The Company - Clal Industries and Investments Ltd.

The Group - Clal Industries and Investments Ltd. and its investee companies. The principal investee companies appear in the attached appendix.

Subsidiaries - Companies controlled by the Company (as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel) and whose financial statements are consolidated within the Company's own financial statements.

Proportionately-consolidated subsidiaries - Companies held by several shareholders, possessing a contractual agreement regarding joint ownership and whose financial statements are proportionately consolidated with the Company's own financial statements.

Associated Companies - Companies in which the Company possesses a material influence and that are not consolidated subsidiaries. The Company's investment in these companies is included in the financial statements on an equity basis.

Investee Companies - Consolidated subsidiaries, Proportionately-consolidated subsidiaries or associated companies.

Notes to the Financial Statements

Other Companies	- Companies that are not investee companies, the investment in which is presented on a cost basis, including participation units in venture capital funds that are presented on a cost basis or on an equity basis, as the case may be.
The Parent Company	- IDB Development Corporation Ltd.
IDB Group Company	- An investee company of the Parent Company, except for the Group's investee companies.
Controlling Shareholders	- As defined in the Securities Regulations (Presentation of Transactions Between a Corporation and its Controlling Shareholder in the Financial Statements) - 1996
Interested Parties	- As defined in the Securities Regulations (Preparation of Annual Financial Statements) - 1993
Related Parties	- As defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.

Note 2: Significant Accounting Policies

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

A. Adjusted Financial Statements

1. The Company and the Investee Companies in Israel maintain their accounts in nominal shekels. In accordance with the opinions of the Institute of Certified Public Accountants in Israel, all the figures in the financial statements (including comparison numbers) are presented in adjusted New Israeli Shekels (NIS), which possess a uniform purchasing power. The purchasing power of an adjusted NIS reflects the average level of prices in the month of December 2003, according to the Consumer Price Index (hereinafter: "CPI") that was published on January 15th 2004 (178.58 points on an average basis; 1993 = 100). Regarding the termination of the adjustment of the financial statements to inflation, as of January 1st 2004, see Section 'S', below.
2. The adjusted amounts of non-monetary assets do not necessarily reflect the realization value or current economic value, but only the original historical value of those assets, adjusted according to changes in the general purchasing power of the currency.

Note 2: Significant Accounting Policies (Cont'd)

Notes to the Financial Statements

3. The terms “cost” in these financial statements signifies cost in adjusted NIS.
4. A summary of the Company’s nominal data appears in Note 35.

B. Adjustment Principles**1. Balance Sheets**

- (a) Non-monetary items (whose sums in the balance sheets reflect their historical value at the time of their purchase or creation – see below) were adjusted on the basis of changes in the CPI since their purchase or creation.

The following items were treated as non-monetary items: Prepaid expenses, inventories, net work in progress, long-term investments, fixed assets and the depreciation accrued thereupon, other assets – net, advances and the capital and reserve balances originating from equity received from the shareholders.

- (b) Investments at equity are based on the adjusted financial statements of the investee companies.
- (c) Monetary items (whose amounts in the balance sheets reflect current or realizable value as at the balance sheet date) are presented in the adjusted balance sheets as at December 31, 2003 in their nominal sum amounts that day (the comparison figures have been adjusted to the NIS of December 2003).

2. Statement of Income

- (a) The components of the Statement of Income (except for financing), relating to transactions carried out during the reported year - revenues, expenses, etc. - have been adjusted on the basis of the date of the transactions, according to monthly base indexes. The erosion of monetary balances relating to the aforesaid transactions has been included in the financing item, net.
- (b) Components of the Statement of Income that are related to non-monetary items in the Balance Sheets, have been adjusted according to the same basis that served for the adjustment of the relevant balance-sheet items: Depreciation, income (loss), equity, etc.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)

- (c) The components of the Statement of Income relating to provisions included in the balance sheets – accrued post-retirement/post-employment benefits (net), provision for vacation pay, etc. – have been determined on the basis of changes in the relevant balance sheet balances, after their relative cash flows were taken into account.
- (d) Current taxes on income include the expense relating to the erosion in the value of payments from the payment date to the balance sheet date.
- (e) The Company's equity in the results of investee companies is based on the adjusted financial statements of these companies.
- (f) The net financing item reflects the financial income and expenses in real terms, including the erosion of monetary items in the course of the year.

3. Statements of Changes in Shareholders' Equity

Dividend that was declared and actually distributed was adjusted on the basis of the CPI at the actual date of distribution.

Dividend that was declared subsequent to the balance sheet date, yet prior to the signing of the financial statements, will not appear as a liability in the financial statements.

4. Translation of the Financial Statements of Investee Companies Abroad

The financial statements of overseas investee companies that are integral to the operations of the Group are translated into and adjusted for changes in the general purchasing power of the Israeli currency as follows: non-monetary balance sheet items are translated at historical exchange rates; monetary items are translated at the rate of exchange at the balance sheet date and items in the statement of income are translated at average exchange rates. Translation differences are included in financing income or expenses.

Certain investee companies in Israel that operate autonomously and whose principal revenues are obtained in foreign currency and whose principal assets were purchased in foreign currency, as well as investee companies in Israel whose securities are publicly traded on overseas exchanges and who operate autonomously, adjust their financial statements on the basis of changes in the exchange rates of foreign currency. Investee companies based overseas that operate autonomously, prepare their financial statements in foreign currency. The holding companies adjust their investment in these investee companies on the basis of changes in the Consumer Price Index.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)

The net equity of the investee companies is adjusted on the basis of changes in the exchange rate. The difference between the adjustments is included in a separate component of shareholders' equity ("Differences arising from financial statements of certain investee companies restated to foreign currency").

The Company implements Clarification No. 3 of Accounting Standard No. 15 "The Accounting Treatment for an Impairment of an Investment in an Investee Company that is Not a Subsidiary". In accordance with the Clarification, translation differences on account of provisions for impairment at investee companies are also classified in the same item in the Statement of Changes in Shareholders' Equity. When a decrease is recorded in the provision for impairment, the translation differences associated thereto are proportionately allocated as revenues or as expenses, during the period when the decrease in the provision began.

C. Consolidation of the Financial Statements

The consolidated financial statements include the financial statements of fully-consolidated subsidiaries, as well as jointly-held investee companies, in proportionate consolidation. Material inter-company transactions and balances have been eliminated in the consolidated financial statements.

D. Cash Equivalents

Cash Equivalents are considered by the Company as highly-liquid investments, including short-term deposits with banks with a redemption period no longer than three months and that are not limited by liens.

E. Short-Term Marketable Securities

Short-term investments in marketable securities that may be realized immediately are stated at their market value at the balance sheet date. Changes in the market value of these securities are carried to the Statement of Income.

F. Provision for Doubtful Debts

The provision for doubtful debts in the consolidated financial statements is calculated partially in a specific manner on account of debts whose collection is deemed questionable by the respective managements. The provision also includes a general provision whose rate is determined according to management estimates on the basis of past experience.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)G. Inventories

Inventories are stated at the lower of cost or market value, with the cost being determined partly by the moving average method and partly according to the “first-in, first-out” (“FIFO”) method.

H. Investments In Investee Companies

1. The Company’s investments in investee companies are presented according to the equity method. The equity of the holding company is based on the outstanding share capital as at the 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.
2. Excess of cost arising on the acquisition of investee companies not attributed to specific assets (goodwill) is amortized at equal annual rates over its useful life-span, during a period of ten years and five years (usually five years), beginning with the date of acquisition. The period of amortization is reassessed periodically based on the anticipated benefit that may be derived from the asset. Excess cost attributed to know-how is amortized over a period of five years.
3. The financing of research and development operations, as reflected by the cost of acquisition of shares in investee companies, is charged to the Statement of Income upon acquisition.
4. The Company assesses the need to record an impairment during every reporting period, in accordance with the directives of Accounting Standard No. 15 (see ‘L’, below).
5. In the event that a profit is created as a result of a decrease in the holding rate in an investee company that is in the research and development stages and that has yet to record any significant sales, this profit is carried to the statement of income over a period of three years, in equal parts, or up to the level of the Company’s share in the losses of the investee company during the reported year – the highest of the two on a cumulative basis.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)I. Other Investments

The investment in venture capital funds (mainly organized as partnerships) in which the Company exercises significant influence, are accounted for in the financial statements by the equity basis. Any such investments wherein the Company does not possess a material influence, are accounted for on the basis of cost.

The above investments are presented net of any provisions for impairment, other than those deemed by the management to possess a temporary nature.

Investments in non-marketable securities and permanent investments in marketable securities of companies in which the Company does not possess significant influence, are presented at cost, net of provisions for impairment that the Company's management feels are not of a temporary nature.

Costs in respect of participation in geological and seismic exploration and surveys are charged to the statement of income as incurred. The investment in the drilling of oil and gas wells is included in the balance sheet at cost, pending determination of whether the wells have found commercially feasible proven reserves. Investments in the drilling of oil and gas wells that have proven to be dry and have been abandoned, or that have proven not to be economically feasible, or regarding which no development plans have been made in the near future, were amortized in full in the statement of income.

J. Fixed Assets

1. Fixed assets are presented at cost, net of accumulated depreciation and net of investment grants received thereupon. Financing costs relating to the financing of the acquisition or the construction of fixed assets until the operation of such assets, appear under the cost of acquisition. Improvements and betterments are charged to the cost of assets while maintenance and repairs are charged to the statement of income as incurred.

The Company assesses the need to record a provision for impairment during every reporting period, in accordance with the directives of Accounting Standard No. 15.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)

2. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets:

	<u>%</u>
Buildings *)	20-2
Machinery, plant and equipment	33-4.5
Motor vehicles and trailers	20-10
Office furniture and equipment	33-6

(* Including improvements and betterments to leased property, that are depreciated over the period of the lease, including the optional extension.

K. Other Assets and Deferred Charges

1. Real Estate is included at cost, net of depreciation that is calculated by the straight line method over the estimated useful lives of the assets. Assets intended for realization are carried at the lower of cost or anticipated realizable value.
2. Goodwill arising upon acquisition of subsidiaries is amortized according to the straight-line method, over a period of ten years or five years (see H2, above).
3. Know-how, patents and goodwill acquired – are depreciated over their anticipated period of use.
4. Expenses related to the issue of debentures and raising of loans – are depreciated over the life-span of the debentures and the loans, in proportion to the debenture balances and loans in circulation.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)L. Impairment of Assets1. Impairment of Fixed Assets

The Company implements Accounting Standard No. 15 "Impairment of Investments". The Standard prescribes the accounting treatment and disclosure for impairment of assets. The Standard applies to all assets appearing in the balance sheet other than: inventories, assets arising from construction contracts, assets originating from employee benefits, deferred tax assets and financial assets (except investments in investee companies that are not subsidiaries). According to the new Standard, if there is any indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable value. The recoverable value is defined as the higher of an asset's net selling price and its value in use. Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In the event that the carrying amount of an asset in the balance sheet exceeds its recoverable value, an impairment loss should be recognized for the amount by which the carrying amount of the asset exceeds its recoverable value. An impairment loss previously recognized should be reversed only if there has been a change in the estimates used to determine the asset's recoverable value since the impairment loss was recognized.

Commencing in the third quarter of 2003, the Company had adopted Clarification No. 1 to Accounting Standard No.15, "The Accounting Treatment for an Impairment of an Investment in an Investee Company that is Not a Subsidiary". The Interpretation prescribes that in the reporting periods subsequent to the period in which the Company first records a provision for impairment in respect of an investment, the investment should be included in the financial statements at the lower of its recoverable value or its carrying value, as calculated using the equity method (before the provision for impairment).

As long as there is no change in the recoverable value of the investment in the investee company, and the recoverable value is lower than the carrying value of the investment according to the equity method (before the provision for impairment), the Company should continue to record its equity in the business results of the investee company and, at the same time, update the provision for impairment of the investment, such that there will be no effect on the Company's statement of income.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)

A loss from impairment of an investment in an investee company that is recognized or reversed should be presented in “equity in earnings (losses) of associated companies”. The comparison figures were reclassified. In the event that the provision for impairment was previously charged against the item “Adjustments resulting from the translation of the financial statements of investee companies” in the Statement of Changes in Shareholders’ Equity, then the updating of the provision will also be charged to the same item in shareholders’ equity and not to the equity in the results of the investee company.

Regarding the effect of the Clarification on the Company’s results, see Note 8f.

2. Impairment of Investments in Other Companies

The Company normally assesses the fair value of its investments in each reporting period and upon the occurrence of unusual events or other indications of an impairment that is other than temporary.

The assessment of fair value takes into account, among others, the market value of the investments (with respect to investments in marketable securities), analyst estimates and valuations of the investments, the situation in the industry in which the investee operates, the business situation in the sector in which the investee operates, the business situation of the investee and material adverse changes, non-stock-exchange transactions in the investee’s securities, the cost of raising capital for the investee, as well as additional information furnished by the investee to its Board of Directors (in cases where the Company is represented on the Board of Directors) or to its shareholders.

IN accordance with the outcome of the said examination, the Company includes – if necessary – a provision for impairment other than temporary that is charged to the statement of income.

M. Revenue Recognition

1. Revenue from sales is recognized upon shipment of goods to customers.
2. Revenue from services is recognized as the services are provided.
3. Revenues from the leasing of assets are recognized on the basis of the period of the lease.
4. Revenues from construction work are recognized according to the “Percentage of Completion” method. According to the “Percentage of Completion” method, revenues from sales are recognized by multiplication of the proceeds from the sale by the percentage of completion, but not before the sale proceeds constitute at least

50% of the total expected revenues therefrom and the percentage of completion of the project is at least 25%.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)N. Research and Development Costs

Costs of research and development, net of grants and participations, are charged to the statement of income as incurred.

O. Deferred Taxes

1. Deferred taxes are calculated on account of temporary differences between the sums included in the adjusted financial statements and the sums taken into account for tax purposes. The factors on account of which deferred taxes are calculated include:

Differences between the value of real-estate assets and fixed assets in the adjusted financial statements and their value for tax purposes (except such differences in respect of land and in respect of buildings depreciated over a period exceeding 20 years), provision for vacation pay, accrued post-retirement/post-employment benefits – net, provision for doubtful debts, advances and carryover losses for tax purposes.

The deferred tax balances are calculated at the tax rates that are expected to be in effect when these taxes will be charged to the statements of income, based on the tax laws in effect as at the balance sheet date. The sum of deferred taxes in the statement of income reflects the changes in these balances during the reported year.

2. Deferred taxes are not provided with respect to taxes that would be incurred if investments in investee companies were realized, as long as it is probable that the sale of the investments in the investee company is not expected in the foreseeable future. Deferred taxes are also not provided with respect to dividends from investee companies, pursuant to policies of the investee companies not to initiate dividend distribution that will result in any additional tax liability.
3. Deferred taxes are not provided with respect to losses for tax purposes, regarding whose utilization in the future there is no certainty.

Notes to the Financial StatementsNote 2: Significant Accounting Policies (Cont'd)P. Earnings (Loss) Per Share

The earnings (loss) per share were calculated according to the instruction of Opinion 55 of the Institute of Certified Public Accountants in Israel.

The basic 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 at the beginning of the year or, if later, at the date of issue, provided that such 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 the basic earnings per share. Securities derived from the exercise of options whose effect would be anti-dilutive are excluded from the computation.

Q. Exchange Rates and Linkage

1. Assets and liabilities in foreign currency, or linked thereto, appear according to the representative exchange rates that were published by the Bank of Israel and were in force at the balance sheet date.
2. Assets and liabilities linked to the CPI appear according to the relevant CPI regarding each linked asset or liability.

The following table includes data regarding the exchange rates of the US dollar and the Consumer Price Index:

<u>As at</u>	<u>Representative exchange rate of the US dollar In NIS</u>	<u>CPI for December - In points *)</u>
Dec-31-2003	4.379	178.6
Dec-31-2002	4.737	182.0
Dec-31-2001	4.416	170.9
<u>Rate of change during year ended at</u>	<u>%</u>	<u>%</u>
Dec-31-2003	(7.6)	(1.9)
Dec-31-2002	7.3	6.5
Dec-31-2001	9.3	1.4

(* CPI according to average base, 1993 = 100.

Notes to the Financial Statements

Note 2: Significant Accounting Policies (Cont'd)R. Derivative Financial Instruments

Results of forward exchange transactions intended to hedge export proceeds and costs of assets against currency exchange rate differentials, are reflected in the statement of income concurrently with recording the results of the transactions which they were intended to hedge. Other derivative financial instruments are included according to their fair value as at the balance sheet date. The changes in fair value are regularly included in the statement of income.

S. Implementation of New Accounting Standards and their Effect on the Financial Statements

In October 2001, the Israel Accounting Standards Board issued Accounting Standard No. 12, concerning the discontinuation of adjustment of financial statements, as well as Accounting Standard No. 13 regarding effects of changes in foreign exchange rates. Accounting Standard No. 17 was published in December 2002, regarding the delay in the implementation of accounting standards 12 and 13 until January 1st 2004.

According to Accounting Standards No. 12 and 17, regarding the discontinuation of the adjustment of financial statements, the adjustment of financial statements to inflation in Israel will cease as of January 1st 2004. Until December 31st 2003, the Company continued to maintain adjusted financial statements, pursuant to Opinion 36 of the Institute of CPAs in Israel. The adjusted amounts in the financial statements as at December 31, 2003, will serve as the basis for nominal financial reporting as of January 1, 2004.

Accounting Standard No. 13 sets rules regarding the effects of changes in foreign exchange rates. The standard replaces Clarifications No. 8 and 9 to Opinion 36 of the Institute of CPAs in Israel, which become null and void upon the discontinuation of adjustment of financial statements. The Standard establishes the accounting treatment for foreign currency transactions and for the translation of financial statements of overseas operations, for the purpose of integrating them in the financial statements of the reporting corporation. Subsequent to the adoption of this standard, goodwill arising from the acquisition of foreign autonomous units will be translated using the closing exchange rate, and not the exchange rate on the date of the acquisition, as is presently being done. Moreover, items in the statement of income of these investee units will be translated using the average exchange rate for the period and not by the closing exchange rate, as is currently being done.

The impact of the implementation of Accounting Standard 12 is dependent upon the inflation rate in Israel, the composition of assets and the Company's sources of finance at that time.

Notes to the Financial Statements

The Company is evaluating the impact of adopting Accounting Standard 13, however it is not presently possible to estimate its effect on the financial statements.

Note 3: Short-Term Investments

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Marketable Securities	1	4	-	
Short-term loans and deposits:				
Loan to investee companies	-	-	109	67
Deposits in IDB Group company	86	58	79	23
Other Investments	54	23	45	22
Current maturities of long-term loans and deposits	33	40	97	94
	<u>174</u>	<u>125</u>	<u>330</u>	<u>206</u>

Note 4: Accounts Receivable - Trade

	Consolidated	
	December 31	
	2003	2002
	Adjusted NIS, millions	
Open debts	343	352
Credit card companies	66	61
Checks receivable	60	60
	<u>469</u>	<u>473</u>
Less - provision for doubtful debts	18	15
	<u>451</u>	<u>458</u>

Notes to the Financial Statements

Note 5: Other Accounts Receivable

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>			
Institutions	17	25		
Dividend to receive from associated company	18		18	
Investee Companies	2	5	10	5
Employees	2	2		
Deferred tax benefits (see Note 29)	51	9	13	
Prepaid expenses	17	20		3
Others	29	26		
	<u>136</u>	<u>87</u>	<u>41</u>	<u>8</u>

Note 6: Inventories

	<u>Consolidated</u>	
	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>	
Finished goods	133	170
Merchandise	112	109
Work-in-process	124	151
Raw and auxiliary materials	221	246
Buildings and stores for sale	10	8
Merchandise and materials in transit and payments on account of inventories	<u>13</u>	<u>17</u>
	<u>613</u>	<u>701</u>

Notes to the Financial Statements

Note 7:- Long-Term Deposits, Loans and Receivables

A. Composition:

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Deposits and loans:				
IDB Group companies	-	1	-	
Investee Companies	2	47	20	97
Others	36	30	29	45
	38	78	49	142
Less – current maturities	31	40	48	94
	7	38	1	48
Deposits in excess of accrued termination benefits (see Note 18)	5	4	1	1
	12	42	2	49

B. Linkage Terms and Interest Rates

	Weighted	Consolidated		Weighted	The Company	
	Interest Rate	December 31		Interest Rate	December 31	
	December 31, 2003	2003	2002	December 31, 2003	2003	2002
	%	Adjusted NIS, millions		%	Adjusted NIS, millions	
Banks and others *):						
Balances linked to the Consumer Price Index	4.9	34	15	5.0	29	45
Balances in or linked to the US dollar	3.2	1	15		-	
Unlinked balances	9.0	1			-	
		36	30		29	45
Investee companies *):						
Balances linked to the Consumer Price Index	8.0	2	47	4.0	20	97
IDB Group companies:						
Balances linked to the Consumer Price Index		-	1		.	
		38	78		49	142

(* Primarily fixed interest rate)

Notes to the Financial Statements

Note 7:- Long-Term Deposits, Loans and Receivables (Cont'd)

C. Maturities as at December 31, 2003:

	<u>Consolidated</u>	<u>The Company</u>
	<u>December 31, 2003</u>	
	<u>Adjusted NIS, millions</u>	
First year – current maturities *)	31	48
Second year	2	-
To be determined	5	1
	<u>38</u>	<u>49</u>

*) The Company and consolidated – In January 2004, a proportionately-consolidated subsidiary and its shareholders decided to opt for the early redemption of capital notes issued for the company. Subsequently, capital notes in the amount of NIS 16 million appear under current maturities.

D. Classification of balances of loans and other receivables by size as at December 31, 2003:

<u>Size of balances</u>	<u>Consolidated</u>		<u>The Company</u>	
	<u>No. of borrowers</u>	<u>Total Adjusted NIS, millions</u>	<u>No. of borrowers</u>	<u>Total Adjusted NIS, millions</u>
<u>NIS Millions</u>				
Up to 1	54	3	-	-
Between 1 and 10	6	19	2	7
Above 10	1	16	2	42
	<u>61</u>	<u>38</u>	<u>4</u>	<u>49</u>

Notes to the Financial Statements

Note 8:- Investments in Investee Companies

A. Composition:

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Shares				
Subsidiaries	-	-	1,633	1,817
Proportionately-				
consolidated subsidiaries	-	-	465	444
Associated Companies	1,157	1,280	485	525
Total shares (1)	1,157	1,280	2,583	2,786
Convertible debentures of				
and loans to associated				
companies (2)	26	32	22	22
Convertible capital notes				
(3)	-	-	497	703
Loans and other				
receivables (4)	5	3	12	91
	<u>1,188</u>	<u>1,315</u>	<u>3,114</u>	<u>3,602</u>
Investments are presented				
as follows:				
In investments	1,199	1,327	3,114	3,604
In other long-term				
liabilities	(11)	(12)	-	(2)
	<u>1,188</u>	<u>1,315</u>	<u>3,114</u>	<u>3,602</u>

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

- (1) Composition of investment in shares:

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Cost and accumulated earnings as at January 1, 1992	2,027	2,012	3,870	3,846
Earnings (losses), net, accumulated since 1992	(776)	(689)	(1,322)	(1,181)
Capital reserves accumulated since 1992:				
Differences arising from financial statements of certain investees adjusted to foreign currency	(104)	(53)	(72)	(6)
Other reserves	10	10	107	127
	<u>1,157</u>	<u>1,280</u>	<u>2,583</u>	<u>2,786</u>

- (2) The debentures and loans are linked to the US dollar and bear interest at a weighted average rate of 3.1% per annum (The Company – annual interest rate of 3%).
- (3) Capital notes to consolidated subsidiaries are unlinked, do not bear interest and are convertible. The repayment dates of the said capital notes have yet to be determined. The comparison figures are included after the offset of a capital note from a subsidiary that is not linked, does not bear interest and is not convertible, in the amount of NIS 392 million, that was repaid in 2003.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

(4) Terms of loans and other receivables:

	Consolidated			The Company		
	Associated Companies			Subsidiaries		
	December 31			December 31		
No. of borrowers (*)	2003	2002	No. of borrowers (*)	2003	2002	
	Adjusted NIS, millions			Adjusted NIS, millions		
Capital notes and loans in NIS – unlinked:						
Interest-free	-	-	1	4	1	
Capital note and loans linked to the CPI:						
Bearing fixed interest rate of 4%	2	4	2		50	
Interest-free	1	1	1		-	
Loan linked to the US dollar: Bearing variable interest of Libor + 8%		-	-	1	8	40
	<u>3</u>	<u>5</u>	<u>3</u>	<u>2</u>	<u>12</u>	<u>91</u>
Net of current maturities		<u>-</u>	<u>-</u>	<u>49</u>	<u>-</u>	

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

(* As at December 31, 2003.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

B. Movement of investments in 2003 is as follows:

	Consolidated	The Company			Total
	Associated Companies	Subsidiaries	Proportionately-consolidated subsidiaries	Associated Companies	
	Adjusted NIS, millions				
Balance at beginning of year	1,315	2,513	543	546	3,602
Movement during the year -					
Investment in shares	30	50	-	-	50
Loans and current accounts, net	2	(29)	-	-	(29)
Convertible debentures and loans, net	(6)	-	-	-	-
Redemption of capital notes, net	-	(219)	(49)	-	(268)
Divestiture of investments	(8)	-	-	-	-
Losses on changes in holdings in investee companies, net	(20)	-	-	(6)	(6)
Group's equity in earnings (losses), net	(12)	(119)	13	39	(67)
Dividends	(59)	(8)	(41)	(55)	(104)
Financial statement translation differences	(51)	(45)	-	(21)	(66)
Other changes	(3)	(2)	-	4	2
Balance at end of year	<u>1,188</u>	<u>2,141</u>	<u>466</u>	<u>507</u>	<u>3,114</u>

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)C. Investments in Listed Companies

	As at December 31				
	2003			2002	
	Sum of investment as appearing in balance sheet	Stock Market Value	Stock Market Value: Mar-24-2004 *)	Sum of investment as appearing in balance sheet	Stock Market Value
Adjusted NIS, millions					
<u>Consolidated</u>					
<u>Shares of Associated Companies</u>					
American Israeli Paper Mills Ltd.	193	303	312	222	186
Fundtech Ltd.	106	194	169	115	103
Ormat Industries Ltd.	118	272	(**	103	120
Beit Shemesh Engine Holdings (1997) Ltd.	17	14	15	16	11
ECI Telecom Ltd.	299	381	390	365	146
Scitex Corporation Ltd.	210	212	239	187	60
Nova Measuring Instruments Ltd.	26	73	69	32	22
Shellcase Ltd.	14	51	(***	7	18
Maman - Cargo Terminals and Handling Ltd.	23	29	38	26	19
Gold Bond Group Ltd.	9	9	12	8	7
	<u>1,015</u>	<u>1,538</u>	<u>1,244</u>	<u>1,081</u>	<u>692</u>
<u>Other marketable securities of associated company</u>					
Ormat Industries Ltd.	<u>22</u>	<u>41</u>	<u>41</u>	<u>21</u>	<u>20</u>
<u>The Company</u>					
<u>Shares in consolidated subsidiary</u>					
Polgat Ltd.	<u>130</u>	<u>93</u>	<u>85</u>	<u>142</u>	<u>73</u>
<u>Shares of Associated Companies</u>					
American Israeli Paper Mills Ltd. Group	193	303	312	222	186
Fundtech Ltd.	106	194	169	115	103
Gold Bond Group Ltd.	9	9	12	8	7
Ormat Industries Ltd.	99	211	(**	85	93
Beit Shemesh Engine Holdings (1997) Ltd.	8	8	9	7	6
	<u>415</u>	<u>725</u>	<u>502</u>	<u>437</u>	<u>395</u>
	<u>545</u>	<u>818</u>	<u>587</u>	<u>579</u>	<u>468</u>

Notes to the Financial Statements

- (* Based on the number of shares held by the Company and Group companies as at December 31, 2003.
(** The investment was sold off subsequent to the balance sheet date; see Section J, below.
(***) As at the date of publication of the financial statements, the shares of Shellcase Ltd, were delisted from trade on the stock exchange.

D. Goodwill in the Acquisition of Investee Companies

	<u>Consolidated</u>	
	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>	
Goodwill (excess of cost of investments over fair value upon acquisition)	92	128
Less - accumulated amortization	<u>67</u>	<u>68</u>
Unamortized balance	<u><u>25</u></u>	<u><u>60</u></u>
Surplus of fair value upon acquisition over cost of investments	36	37
Less - accumulated amortization	<u>19</u>	<u>12</u>
Unamortized balance	<u><u>17</u></u>	<u><u>25</u></u>

	<u>The Company</u>			
	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Subsidiaries</u>	<u>Associated Companies</u>	<u>Total</u>	<u>Total</u>
	<u>Adjusted NIS, millions</u>			
Goodwill (excess of cost of investments over fair value upon acquisition)	22	45	67	67
Less - accumulated amortization	<u>11</u>	<u>39</u>	<u>50</u>	<u>43</u>
Unamortized balance	<u><u>11</u></u>	<u><u>6</u></u>	<u><u>17</u></u>	<u><u>24</u></u>
Surplus of fair value upon acquisition over cost of investments	59	28	87	89
Less - accumulated amortization	<u>33</u>	<u>15</u>	<u>48</u>	<u>38</u>
Unamortized balance	<u><u>26</u></u>	<u><u>13</u></u>	<u><u>39</u></u>	<u><u>51</u></u>

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

- E. Company's share of financial statement items of proportionately-consolidated, jointly controlled companies

	December 31	
	2003	2002
	Adjusted NIS, millions	
Current assets	650	658
Non-current assets	1,314	1,406
Current Liabilities	584	585
Long-Term Liabilities	355	480
Minority interests	7	8

	For the year ended December 31		
	2003	2002	2001
	Adjusted NIS, millions		
Revenues	1,359	1,309	1,600
Costs and expenses	1,339	1,269	980

F. Impairment (reversal of impairment)

1. The following impairments (reversal of impairments) were charged to the item "Equity in losses of associated companies":

	Consolidated		
	For the year ended December 31		
	2003	2002	2001
Adjusted NIS, millions			
ECI Telecom Ltd.	(17)	22	92
Scitex Corporation Ltd.	(* (40)	40	60
Fundtech Ltd.	-	-	98
Other	17	6	28
	<u>(40)</u>	<u>68</u>	<u>278</u>

(* See Section F.2, below.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

F. Impairment (reversal of impairment) (Cont'd)

	The Company		
	For the year ended		
	December 31		
	2003	2002	2001
	Adjusted NIS, millions		
Fundtech Ltd.	-	-	98
CEI Industries Ltd.	-	-	39
Other	-	-	9
	-	-	146

2. Impairment charged to the item "Differences arising from financial statements of investee companies adjusted to foreign currency, net" in the Statement of Changes in Shareholders' Equity:

In 2002, the Company recorded an amortization on account of the impairment of its investment in ECI Telecom Ltd. (hereinafter: "ECI") in the amount of NIS 43 million, against a capital reserve from differences on account of adjustments arising from financial statements of investee companies adjusted to foreign currency, in the Statement of Changes in Shareholders' Equity. The company reversed a sum of NIS 7 million on account of the said impairment in the last quarter of 2003.

G. Principal Changes in 2003

1. Clal Electronic Industries (hereinafter: "CEI") acquired shares of Shellcase Ltd. (hereinafter: "Shellcase") in February 2003, in return for NIS 3 million. Furthermore, CEI converted into shares loans that it had previously granted to Shellcase, in the amount of NIS 14 million. Subsequent to the said investments, CEI's share in the issued and outstanding share capital of Shellcase, rose to reach 29% (fully diluted = 28%). The excess cost to CEI as a result of the above amounted to NIS 7 million and was allocated to know-how that is amortized over 5 years.

In September 2003, CEI granted Shellcase a loan of NIS 3 million. This loan may be converted into Shellcase shares under certain conditions, as detailed in the loan agreement.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

2. On November 25, 2003, Scitex signed an agreement for the sale of the operations of Scitex Digital Printing Inc. (hereinafter: "SDP") – a wholly-owned Scitex subsidiary – including SDP assets and liabilities, as well as certain Scitex subsidiaries that are involved in the SDP operations – all in return for \$250 million, to be paid in cash upon closing of the deal. Furthermore, within the framework of the transaction, Scitex also remained in possession of \$12 million of the cash that remained in the hands of SDP at the closing date of the transaction. The total proceeds from the transaction therefore amount to \$262 million.

The sale transaction was finalized in January 2004. Scitex recorded a tax benefit of \$8 million as a result of the transaction in the fourth quarter of 2003 and is expected to record capital gains of \$52 million in the first quarter of 2004, according to generally-accepted accounting principles in the United States. On the basis of these figures, the Company will record its share in the Scitex gains from the transaction in the first quarter of 2004, in the sum of NIS 50 million, calculated according to generally-accepted accounting principles in Israel.

Scitex announced that it intends to distribute a sum of \$118 million in cash to its shareholders, while the remaining \$32 million are intended to be distributed by way of an independent acquisition of its own shares, through a special tender offer, pursuant to the Companies Law, whose particulars have yet to be determined. The dividend distribution and the independent acquisition are contingent upon various preconditions, including the approval of the general meeting of Scitex shareholders and the approval of the court, that Scitex has sought in this matter. Scitex expects these measures to be carried out within several months, although there is no certainty as to whether and when these preconditions will be met. In the event that the tender offer does not materialize, Scitex will consider alternate ways to distribute the planned sum of the tender offer.

CEI's share in the cash distribution is expected to total \$19 million, if and when this occurs. Together with Discount Investments Ltd. – a subsidiary of the Parent Company – CEI holds approximately 44% of the equity and voting rights in Scitex. In the event that the planned tender offer in Scitex is completed, these holdings may exceed 45% of the voting rights.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)G. Principal Changes in 2003 (Cont'd)

The Company's management believes that the said agreement indicates that the Company's share in the equity value of Scitex is not lower than the recoverable amount of the investment. The Company's management further estimates that the provision for impairment that was previously recorded on account of the investment in Scitex is no longer necessary. The Company consequently cancelled the impairment provision that it included in its accounts in 2002, in the sum of approximately NIS 40 million. The cancellation of the provision was charged to the statement of income under the item "Equity in losses of associated companies, net".

H. Convertible Securities and Options

In respect of certain convertible debentures of investee companies and of options granted to employees for which conversion or exercises is probable, a provision for loss in the amount of NIS 28 million was recorded (NIS 13 million in 2002) due an expected decrease in the rate of holdings.

I. Financial statements of certain investee companies which are not presented in accordance with generally accepted accounting principles in Israel (presented in accordance with generally accepted accounting principles in the United States):

1. In its financial statements as at December 31, 2003, ECI reported a correction by way of restatement of its 2002 financial statements, in the amount of \$7 million, relating to a loss from a swap of assets into shares of an ECI investee company.

Considering the fact that the sum of the said correction was taken into consideration by the Company when it recorded a provision for impairment on its investment in ECI in the third quarter of 2002 – based on a valuation obtained from an independent third-party assessor – the said correction of the ECI financial statements has no impact on the Company's financial statements for 2002.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

2. Following are the effects of the adjustment of the financial statements of certain companies from generally accepted accounting principles in the U.S. to generally accepted accounting principles in Israel:

	December 31			
	2003		2002	
	ECI	Scitex	ECI	Scitex
	U.S.\$ thousands			
<u>Shareholders' equity</u>				
As reported by the associated company	569,505	224,698	639,617	221,179
Net adjustments to Israeli accounting principles	631	(7,500)	6,596	(204)
Subsequent to adjustment	<u>570,136</u>	<u>217,198</u>	<u>646,213</u>	<u>220,975</u>

	For the Year Ended December 31					
	2003		2002		2001	
	ECI	Scitex	ECI	Scitex	ECI	Scitex
	U.S.\$ thousands					
<u>Net Income (loss) for the year</u>						
As reported by the associated company	(71,040)	1,387	(162,468)	(32,030)	(412,376)	(253,020)
Net adjustments to Israeli accounting principles	<u>(9,526)</u>	<u>(3,811)</u>	<u>(6,897)</u>	<u>(3,567)</u>	<u>(22,842)</u>	<u>118,165</u>
Subsequent to adjustment	<u>(80,566)</u>	<u>(2,424)</u>	<u>(169,365)</u>	<u>(35,597)</u>	<u>(435,218)</u>	<u>(134,855)</u>

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

3. Accounting principles in the United States are identical to the accounting principles in Israel in all material aspects, as regards the said companies, other than the accounting treatment of the following issues:

(a) Marketable Securities

According to generally accepted accounting principles in the United States, marketable securities classified as "available for-sale" are presented at market value. Changes in value are included as a separate component of shareholders' equity, except in the event of a decrease in value that is other than temporary. According to generally accepted accounting principles in Israel, marketable securities that meet the criteria for a "current investment" are presented at market value and changes in value are recognized in the statement of income. Marketable securities that do not meet the aforementioned criteria are presented at cost, except in the event of a decrease in value that is other than temporary.

(b) Deferred Taxes

According to generally accepted accounting principles in the United States, deferred taxes are not recorded in respect of differences between the rate of change in the Consumer Price Index (measurement basis for tax purposes) and the change in the exchange rate of the U.S. dollar in relation to the shekel. According to generally accepted accounting principles in Israel, deferred taxes are recorded for these differences.

(c) Derivative Financial Instruments

According to US principles, derivative financial instruments are handled according to the directives of Standard 133: "Accounting for derivative instruments and Hedging Activities". This Standard requires all derivatives in the balance sheet to be calculated and classified as assets or liabilities at their fair value. Changes in the fair value of derivative financial instruments is recognized in the statement of income or in the statement of other comprehensive income, depending on how the use of the instrument is designated. According to generally accepted accounting principles in Israel, results of transactions in derivative financial instruments used for hedging purposes are recognized concurrently with the recognition of the hedged item in the financial statements, in accordance with the changes in the exchange rate during the reporting period.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)(d) Intangible Assets

In July 2001 the U.S. Financial Accounting Standards Board issued SFAS 141: "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 replaces APB 16 and eliminates the "pooling of interests" method. The Standard also provides guidelines for the implementation of the purchase method in all matters relating to the recording of intangible assets and negative goodwill. SFAS 142 eliminates the periodic amortization of goodwill and stipulates that goodwill should be tested for impairment at least once annually or whenever there are indications of impairment. In the event that it is necessary to provide for the impairment of goodwill, the loss should be recorded and presented as a separate item in the statement of income, as part of the operating income. However, when the Standard is initially implemented, the impairment of goodwill should be presented as the effect of a change in accounting principles. According to Israeli accounting principles, goodwill is amortized on a periodical basis.

(e) First Time Application of the Equity Method in Respect of an Investment Previously Accounted for by the Cost Method

According to generally accepted accounting principles in the United States, in the event of a transition from recording an investment according to the cost method to recording according to the equity method, the financial statements should be adjusted retroactively to reflect the adoption of the equity method as from the first date of acquisition of the investment. According to generally accepted accounting principles in Israel, the investment is accounted for by the equity method as from the date on which a significant influence is first exercised by the company.

(f) Transactions Involving the Merger or Acquisition of Companies

According to US accounting principles, transactions for the acquisition or merger of companies, that essentially represent a structural change in the holdings of Scitex, were handled as transactions. The capital gain calculated on the basis of the fair value of the companies involved in these transactions was recognized immediately in the statement of income. According to generally accepted accounting principles in Israel, the said transactions were treated as a "replacement of similar assets" and no gain whatsoever was consequently recognized on their account in the statement of income.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)J. Events Subsequent to the Balance Sheet Date

- The option that was granted by the Company to CRH (Israel) Ltd. (hereinafter: "CRH"), within the framework of the agreement that was signed between the parties in August 2001, for the acquisition of an additional 25% of the share capital of Mashav Initiating and Development Ltd., held by the Company, expired on December 31, 2003 (hereinafter: "The Option"). The Company is nevertheless continuing to maintain contacts with CRH. True to the signing date of the financial statements, the parties did not extend the joint management rights that they possessed during the term of the option.

Subsequent to this change, Mashav's financial statements will be fully consolidated within the Company's financial statements, starting March 31 2004. Mashav's financial statements are proportionately consolidated (75%) in the current financial statements.

- Subsequent to the balance sheet date, the Company and a wholly-owned subsidiary sold all their holdings in the shares of Ormat Industries Ltd. (hereinafter: "Ormat") in a non-stock-exchange transaction, in return for NIS 263 million. Subsequent to the sale, the Company will record after-tax profits of approximately NIS 117 million in the first quarter of 2004.

Furthermore, as part of the sale, the Company undertook not to sell its holdings in Series G convertible bonds of Ormat (i.e.- a par value of 21,700,000 in debentures) for a period of three months ending May 16th 2004.

Following the said sale, the Company and its subsidiary recorded tax benefits of NIS 13 million and NIS 14 million, respectively, in the fourth quarter of 2003, as a result of the expected utilization of their carryover losses for tax purposes, on account of which the said companies recorded no tax benefits in their books.

- In February 2004, CEI signed an agreement for the sale of all its holdings in Negevtech Ltd. (hereinafter: "Negevtech"), that is held through a wholly-owned subsidiary.

CEI will receive \$14 million in return for the sale. Under certain conditions, derived from the cost of additional acquisitions of Negevtech shares by the buyer from the Negevtech shareholders (if any), during the 15 months beginning with the closing of the sale, CEI may potentially receive additional proceeds.

The sale is contingent upon the terms stipulated in the Negevtech articles of incorporation and in the shareholder agreement. These conditions concern rights of refusal in the acquisition of shares and tag-along rights that are granted to certain remaining Negevtech shareholders.

Notes to the Financial Statements

Note 8:- Investments in Investee Companies (Cont'd.)

As a result of this transaction – and in consideration of the immediate return alone – the Company is expected to record after-tax gains of NIS 28 million, upon completion of the transaction.

Following the said sale, CEI recorded a tax benefit of NIS 12 million in the fourth quarter of 2003, as a result of the expected utilization of its carryover losses for tax purposes, on account of which CEI recorded no tax benefits in its books.

Note 9:- Other Investments

A. Composition:

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Investment in other units (non-marketable):				
Venture capital investments (1)	160	165	95	66
Other companies (2)				
Shares	223	268	26	27
Convertible debentures and loans (3)	4	65	2	-
Loans (4)	24	11	-	-
Investments in (marketable) shares; see B, below	34	50	8	13
	445	559	131	106
After write-down in the reported year for impairment that is other than temporary	84	169	9	52

(1) Including participation units in venture capital funds that are presented on an equity basis, in the amount of 63 and 69, consolidated and for the Company, respectively (In 2002: 50 and 38, consolidated and for the Company, respectively).

(2) Primarily in technology sectors.

(3) As at December 31, 2003, including loans convertible into shares of the companies only. The loans are linked to the U.S. dollar and bear interest at a weighted average rate of 7.4% per annum.

Notes to the Financial Statements

(4) Composition:

	Consolidated		
	December 31		
	No. of borrowers (*)	2003	2002
		Adjusted NIS, millions	
Linked to the Consumer Price Index:			
Bearing an interest rate of 5.5%	1	1	1
Bearing no interest	1	9	9
Linked to the U.S. dollar:			
Bearing an interest rate of 5%	1	14	1
	<u>3</u>	<u>24</u>	<u>11</u>
Net of current maturities		<u>2</u>	<u>-</u>

(*) As at December 31, 2003

Notes to the Financial Statements

Note 9:- Other Investments (Cont'd)B. Investments in Listed Companies2003

	Consolidated				The Company			
	Sum of investment in shares as appearing in balance sheet		Value on stock exchange as at		Sum of investment in shares as appearing in balance sheet		Value on stock exchange as at	
	As at December 31		December 31, 2003	March 24, 2004 *)	As at December 31		December 31, 2003	March 24, 2004 *)
	2003	2002			2003	2002		
Adjusted NIS, millions								
Compugen Ltd.	23	23	68	84	-	-	-	-
Other Companies	11	27	12	13	8	13	9	10
	<u>34</u>	<u>50</u>	<u>80</u>	<u>97</u>	<u>8</u>	<u>13</u>	<u>9</u>	<u>10</u>

(*) Based on the number of shares held by the Company and Group companies as at December 31, 2003.

Notes to the Financial Statements

Note 9:- Other Investments (Cont'd)

Below are net impairments, charged to the "other income" item:

	Consolidated			The Company		
	Year Ended December 31					
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Adjusted NIS, millions						
Compugen Ltd.			-			-
B.V.R. Systems (1999) Ltd.	-	38	14	-	-	9
Orckit Communications Ltd.	4	20	-	3	14	-
Variant Ltd.	-	9	48	-	-	18
B.V.R. Technologies Ltd.	(4)	8	21	(1)	2	19
Other Companies	-	4	41	-	2	-
	<u>1</u>	<u>13</u>		<u>-</u>	<u>15</u>	
	<u>1</u>	<u>92</u>	<u>124</u>	<u>2</u>	<u>33</u>	<u>46</u>

Notes to the Financial Statements

Note 9:- Other Investments (Cont'd)C. Principal Changes in 2003

- In January 2003, the Company sold its holdings in shares and debentures of Orckit Communications Ltd.(hereinafter: "Orckit") that were held by CEI, in consideration for NIS 71 million. Taking into account the provisions for impairment recorded by the Company in the past in respect of its investment in Orckit, the Company recorded neither gain nor loss from this sale.
- Clalcom Ltd. and a wholly owned subsidiary (hereinafter together: "Clalcom") hold 15% of the share capital of Med 1 Submarine Cables Ltd. (hereinafter: "Med 1") and of Mediterranean Nautilus Ltd. (hereinafter: "Med Nautilus"), which are engaged in the establishment, maintenance, operation and marketing of international communications networks, mainly in the Mediterranean Sea area. In the course of 2003, Clalcom provided Med Nautilus – through a subsidiary – with a loan in the amount of NIS 14 million. Clalcom also granted a loan of NIS 2 million to Med-1. The balance of the investment in Med-1 and Med Nautilus, after the granting of the said loans, amounts to NIS 15 million.

In June 2003, pursuant to the shareholder agreements of Med-1 and Med Nautilus, Clalcom announced the exercise of the Put options it possesses, for the sale of half of its holdings in these companies (7.5% of the share capital of each company), in return for their fair value, as will be determined by the parties. Although the Company is unable to estimate the outcome of the exercise of these options, it does not anticipate a loss from the realization of the said investments.

D. Engagements for Investment in Venture Capital Funds

The Group has made commitments for additional investments in venture capital funds in the amount of US \$ 36.5 million (The Company: US \$ 21.5 million).

Notes to the Financial Statements

Note 10: Fixed AssetsA. Composition and Movement
Consolidated

	<u>Land & Buildings</u>	<u>Machinery, plant & equipment</u>	<u>Motor vehicles and trailers</u>	<u>Office furniture & equipment</u>	<u>Total</u>
	<u>Adjusted NIS, millions</u>				
<u>Cost</u>					
Balance as at January 1, 2003	1,232	4,045	225	187	5,689
Adjustment of balance at beginning of year *)	(10)	(24)	-	6	(28)
Adjustment for newly-consolidated subsidiaries	2	4	-	1	7
Additions during the year	19	26	25	11	81
Disposals in respect of previously proportionately-consolidated subsidiary	(1)	-	-	(5)	(6)
Disposals during year	(10)	(2)	(21)	(3)	(36)
Balance as at December 31, 2003	<u>1,232</u>	<u>4,049</u>	<u>229</u>	<u>197</u>	<u>5,707</u>
<u>Accumulated Depreciation</u>					
Balance as at January 1, 2003	645	2,988	154	143	3,930
Adjustment of balance at beginning of year *)	(4)	(20)	-	6	(18)
Adjustments for newly-consolidated subsidiaries	2	3	-	-	5
Additions during the year	21	99	20	17	157
Disposals in respect of previously proportionately-consolidated subsidiary	-	-	-	(4)	(4)
Disposals during year	(6)	(2)	(14)	(4)	(26)
Balance as at December 31, 2003	<u>658</u>	<u>3,068</u>	<u>160</u>	<u>158</u>	<u>4,044</u>
<u>Depreciated cost as at December 31, 2003.</u>	<u>574</u>	<u>981</u>	<u>69</u>	<u>39</u>	<u>1,663</u>
<u>Depreciated cost as at December 31, 2002</u>	<u>587</u>	<u>1,057</u>	<u>71</u>	<u>44</u>	<u>1,759</u>

(* In respect of differences arising from financial statements of investee companies adjusted to foreign currency (see Note 2A) and in respect of reclassification by proportionately-consolidated subsidiary.

Notes to the Financial Statements

Note 10:- Fixed Assets (Cont'd)

B. Supplementary Information:

1. Land and buildings include:

	Total Adjusted NIS, millions
Freehold land	749
Leasehold land (leasehold rights are for various periods ending through to 2030)	124
Excess cost attributed to real estate	256
	1,129
Leasehold rights and improvements	103
	1,232

Land costing NIS 99 million is not yet registered in the name of subsidiaries in the Land Registry. The registration process has not yet been completed due to ongoing arrangements relating to the property and its reparation.

2. Net investment grant deducted from the cost of assets: NIS 90 million (In 2002: NIS 99 million).
3. In January 2003, a proportionately-consolidated subsidiary (75% of which is held) modified the estimated useful life-span of machinery and equipment, from periods ranging between 10-15 years, to 20 years. The new estimate is based on engineering assessments. The total decrease in the depreciation expenses of the proportionately-consolidated subsidiary during the year ended December 31, 2003, amounted to NIS 78 million (The Company's share: NIS 59 million).

The impact on the Company's consolidated financial statements is as follows:

	For the year ended December 31, 2003
Decrease in loss before taxes on income	52
Increase in taxes on income	19
	33
Decrease in loss	33
	0.21
Decrease in loss per NIS 1 par value of share capital (in NIS)	0.21

4. Regarding liens: See Note 22.

Notes to the Financial Statements

Note 11:- Other Assets and Deferred Charges

	December 31			2002
	2003		Depreciated Balance	
	Cost	Accumulated Depreciation or Amortization		
Adjusted NIS, millions				
<u>Consolidated</u>				
Goodwill arising from acquisition of subsidiaries:				
Excess of cost over fair value	96	66	30	31
Excess of fair value over cost	71	38	33	41
	25	28	(3)	(10)
Real estate (including buildings for lease) (*)	234	55	179	193
Know-how, patents and goodwill acquired	7	2	5	6
Tax benefit	21	-	21	22
Deferred charges	19	18	1	2
	<u>306</u>	<u>103</u>	203	213
Real estate held for disposal			21	18
			<u>224</u>	<u>231</u>
<u>The Company</u>				
Real estate (including buildings for lease) *)	47	10	37	38
Deferred charges	19	18	1	1
	<u>66</u>	<u>28</u>	<u>38</u>	<u>39</u>

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

Notes to the Financial Statements

Note 12:- Credit from Banks

A. Composition:

	Weighted Interest Rate	Consolidated		Weighted Interest Rate	The Company	
	December 31 2003	December 31		December 31 2003	December 31	
	%	Adjusted NIS, millions		%	Adjusted NIS, millions	
Short-term credit: (*						
Unlinked balances	6.7	484	286	6.6	269	165
Balances in or linked to foreign currency (**)	4.1	103	268	2.1	49	122
Balances linked to the Consumer Price Index	3.9	64	5	3.9	62	-
		651	559		380	287
Current maturities of long-term debt		157	343		21	170
		808	902		401	457

(* Primarily in variable interest

(** Primarily in U.S. dollars

B. Regarding securities (collateral): See Note 22.

Note 13:- Trade Payables

	Consolidated	
	December 31	
	2003	2002
	Adjusted NIS, millions	
Open debts	287	275
Checks to collect	16	28
	303	303

Notes to the Financial Statements

Note 14:- Accounts Payable

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>			
Payroll and related expenses	119	121	-	-
Advances from customers	10	5	-	-
Institutions	39	31	-	3
Provisions for taxes, net of advances	34	25	1	1
Accrued interest	17	16	14	11
Other payables and accrued expenses	149	122	1	2
	<u>368</u>	<u>320</u>	<u>16</u>	<u>17</u>

Note 15:- Other Current Liabilities

A. Composition:

	<u>Weighted Interest Rate</u>	<u>Consolidated</u>		<u>Weighted Interest Rate</u>	<u>The Company</u>	
		<u>December 31</u>			<u>December 31</u>	
		<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		<u>Adjusted NIS, millions</u>			<u>Adjusted NIS, millions</u>	
	<u>%</u>			<u>%</u>		
Investee Companies - Linked to the U.S. dollar		-	8		-	-
Loans from provident funds Unlinked (See B, below)	5.5	<u>31</u>	<u>40</u>	5.5	<u>31</u>	<u>40</u>
		31	48		31	40
Current maturities of long-term liabilities		<u>5</u>	<u>21</u>		<u>2</u>	<u>13</u>
		<u>36</u>	<u>69</u>		<u>33</u>	<u>53</u>

Notes to the Financial StatementsNote 15:- Other Current Liabilities (Cont'd)

- B. During the reported period, the Company issued, in a private placement, commercial papers (non-marketable promissory notes) in the amount of NIS 91 million. The promissory notes are unlinked, bear interest at a weighted annual rate of 5.5% and are scheduled for repayment at various dates, on demand. The outstanding balance of the commercial papers yet to be redeemed amounts to NIS 31 million, as at December 31, 2003.
- C. Regarding securities (collateral): See Note 22.

Note 16:- Debentures

- A. Composition:

	Interest rate *) %	Consolidated and The Company	
		December 31	
		2003	2002
		Adjusted NIS, millions	
Linked to the Consumer Price Index:			
Registered for trade on the stock exchange	5.5	-	10
Not quoted on the stock exchange:			
Series I	5.7	196	196
Series J	5.6	161	161
Series J1	4.5	108	108
Series K (See D, below)	6.0	440	-
		905	475
Less – current maturities		-	10
		<u>905</u>	<u>465</u>

(* Fixed, real-term interest

- B. Regarding securities (collateral): See Note 22.

Notes to the Financial Statements

Note 16:- Debentures (Cont'd)

C. Maturity dates subsequent to the balance sheet date are as follows:

	Consolidated and The Company December 31, 2003 Adjusted NIS, millions
First year – current maturities	-
Second year	269
Third year	28
Fourth year	91
Fifth year	91
Years 6 through 10	426
	<u>905</u>

D. In November 2003, the company issued – by private placement – non-marketable, Series K debentures in the amount of NIS 440 million, to institutional investors (of which NIS 112 million to a related party). These debentures are linked to the Consumer Price Index, bear interest at an annual rate of 5.95% and are scheduled for repayment in seven equal annual installments, starting May 2007.

Note 17:- Long-Term Loans

A. Composition:

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Banks	396	635	61	235
IDB Group companies	17	22	6	9
Subsidiaries	-	-	323	437
Others	1	4	-	-
	414	661	390	681
Less – current maturities	162	350	23	174
	<u>252</u>	<u>311</u>	<u>367</u>	<u>507</u>

Notes to the Financial Statements

Note 17:- Long-Term Loans (Cont'd)

B. Linkage Base:

	Weighted	Consolidated		Weighted	The Company	
	Interest Rate	December 31		Interest Rate	December 31	
	December 31	2003	2002	December 31	2003	2002
	2003	Adjusted NIS, millions		2003	Adjusted NIS, millions	
	%			%		
Linked to the Consumer Price Index *):						
Banks and others	5.4	248	521	5.0	61	235
IDB Group companies	6.2	10	15	7.6	6	9
Subsidiary		-	-	-	323	286
		<u>258</u>	<u>536</u>		<u>390</u>	<u>530</u>
In or linked to foreign currency *):						
U.S. dollar						
Banks and others	4.8	81	57		-	-
Other Currencies						
Banks and others	3.7	17	11		-	-
		<u>98</u>	<u>68</u>		<u>-</u>	<u>-</u>
Unlinked *):						
Banks and others	8.8	51	50		-	-
Subsidiary		-	-		-	151
Capital notes to IDB Group companies	-	7	7		-	-
		<u>58</u>	<u>57</u>		<u>-</u>	<u>151</u>
		<u>414</u>	<u>661</u>		<u>390</u>	<u>681</u>

(* Primarily in variable interest)

Notes to the Financial Statements

Note 17:- Long-Term Loans (Cont'd)C. Repayment Dates

<u>Year</u>	<u>Consolidated</u>			<u>The Company</u>			
	<u>December 31, 2003</u>			<u>December 31, 2003</u>			
	<u>Banks and others</u>	<u>IDB Group companies</u>	<u>Total</u>	<u>Banks and others</u>	<u>IDB Group companies</u>	<u>Subsidiaries</u>	<u>Total</u>
	<u>Adjusted NIS, millions</u>						
First year - current maturities	157	5	162	21	2	-	23
Second year	175	5	180	40	4	323	367
Third year	33	-	33	-	-	-	-
Fourth year	18	-	18	-	-	-	-
Fifth year	14	-	14	-	-	-	-
To be determined	-	7	7	-	-	-	-
	<u>397</u>	<u>17</u>	<u>414</u>	<u>61</u>	<u>6</u>	<u>323</u>	<u>390</u>

D. Financial Parameters

In respect of bank loans, whose balance as at December 31, 2003 amounts to NIS 30 million, the Company undertook to the bank, inter alia, that the Company's shareholders' equity ratio will not fall below 35% of the balance sheet total. True to December 31, 2003, the Company has met this parameter.

In respect of bank loans of a consolidated subsidiary, whose balance as at December 31, 2003 amounts to NIS 19 million, the consolidated subsidiaries have signed agreements with the banks, pursuant to which the consolidated subsidiaries have undertaken to meet certain financial parameters relating primarily to the sum of the shareholders' equity of the consolidated subsidiary, the balance of inter-company loans and their proportion out of the balance sheet total. True to December 31, 2003, the consolidated subsidiary has met all the said financial stipulations.

In respect of the loans of a proportionately-consolidated subsidiary from banks, whose balance as at December 31, 2003 amounts to NIS 18 million, the said company has undertaken toward the banks to maintain a certain ratio between its shareholders' equity and its total assets. True to December 31, 2003, the Company has met this determined parameter.

E. Regarding securities (collateral): See Note 22.

Notes to the Financial StatementsNote 18:- Accrued Post-Retirement/Post-Employment Benefits

- A. Most of the Group employees have joined comprehensive pension or management insurance plans. In respect of certain 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 obligations of Group companies, under law and labor agreements, for post-employment and post-retirement benefits to employees not participating in pension or insurance plans, including compensation for unutilized sick leave and various supplementary payments, are included in the balance sheet according to the law and labor agreements.

Amounts deposited with severance pay funds include accrued profits as at the 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:

	<u>Consolidated</u>	
	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>	
Accrued Post-Retirement/Post-Employment Benefits	154	118
Less - deposits with severance pay funds	<u>21</u>	<u>18</u>
	<u><u>133</u></u>	<u><u>100</u></u>

The above sums do not include deposits in excess of the obligation. Such excess is included in the consolidated balance sheets under "long-term deposits, loans and receivables" (Note 7) and are comprised of:

	<u>Consolidated</u>	
	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>	
Deposits with severance pay funds (includes NIS 4 in a severance pay fund managed by the IDB Group; In 2002: NIS 5 million)	15	15
Less - Accrued Post-Retirement/Post-Employment Benefits	<u>10</u>	<u>11</u>
	<u><u>5</u></u>	<u><u>4</u></u>

Note 19:- Other Long-Term Liabilities

Notes to the Financial Statements

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Excess of Company's share in losses of investee companies over investments therein	11	12	-	2
Net liabilities with respect to real estate development	8	13	-	-
Deferred revenues	3	6	3	4
Other liabilities	7	-	-	-
	<u>29</u>	<u>31</u>	<u>3</u>	<u>6</u>

Note 20:- Contingent Liabilities and Engagements

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

A. Consolidated1. Contingent Liabilities

- Guarantees provided as at December 31, 2003, for -

	Adjusted NIS, millions
Others	64
Associated and other companies	35

- Various claims arising in the ordinary course of business have been filed against Group companies. Appropriate provisions have been made for some of these claims. The respective managements of the companies believe, on the basis of the opinions of legal advisers, that the existing provisions are adequate to cover the anticipated losses arising from the said claims.
- Certain subsidiaries have undertaken to pay royalties to the Government of Israel and to the Israel-US Binational Fund for Industrial Research and Development, in return for their participation, in the form of grants, in the research, development and marketing activities of these subsidiaries. The royalty commitment as at December 31, 2003, amounts to NIS 25 million.

Notes to the Financial Statements

Note 20:- Contingent Liabilities and Engagements (Cont'd)

- 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 construction 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.

Regarding investment grants in the amount of NIS 28 million received by another subsidiary, for which approval of completion of the investments was not received, the Investment Center notified the subsidiary in October 1999 as to the cancellation of the letters of approval. In accordance with an agreement with the Investment Center, the subsidiaries will not be required to repay the grants provided that they fulfill the conditions of the letters of approval. According to the management of the consolidated subsidiary, it is in compliance with the determined conditions.

In February 2002, a subsidiary received a warning in respect of cancellation of two letters of approval as an Approved Enterprise because of non-fulfillment of conditions. In the course of 2003, the consolidated subsidiary reached a settlement with the Investments Center regarding the refunding of the grants, pursuant to which the subsidiary paid a sum of NIS 6 million.

- A consolidated subsidiary received a demand from a service provider for the payment of NIS 10 million (approx. 1.3 million pounds sterling), as a result of a dispute. A consolidated subsidiary filed a counterclaim on account of damages it had incurred by the service provider, in the amount of NIS 7 million. The dispute was transferred to arbitration. The financial statements include a provision that the management of the consolidated subsidiary believes to be adequate in order to cover the potential expenditures of the said claim.
- A lawsuit was filed against a subsidiary at the Be'er-Sheva District Court, alleging that the subsidiary possesses no rights to an area of 235 acres (95 hectares), located in the municipal area of Be'er-Tuvia, that is the subject of an Appeals Committee discussion in a lawsuit filed by the subsidiary, pursuant to Section 197 of the Planning and Building Law. Based on the professional opinion of the legal advisers, the management of the subsidiary estimates that there are no grounds for this lawsuit. A statement of defense and a request to add the State as a witness in the court case were filed. The court instructed the State to respond.

Notes to the Financial Statements

Note 20:- Contingent Liabilities and Engagements (Cont'd)

- Pursuant to an agreement with contractors for the performance of construction work, a subsidiary possesses a contingent liability of NIS 9 million.

- In October 2003, a lawsuit in the total amount of NIS 14 million was filed with the Tel Aviv District Court against Scitex Vision Ltd. (formerly Aprion Digital Ltd.) (hereinafter: "SVN") and others, including directors of SVN and various of its shareholders – including CEI – that holds approximately 7% of SVN, and Scitex, that holds approximately 75% of SVN.

The lawsuit was filed by one of the minority shareholders in SVN, on account of damages incurred and sums allegedly owed to him, following a transaction within whose framework SVN acquired from Scitex all the issued share capital of a wholly-owned Scitex subsidiary at the time (hereinafter: "The Scitex Subsidiary"), in return for the issuing of SVN shares to Scitex. The statement of claim alleges primarily that the terms of the transaction and its performance were determined in such a way as to harm the contractual and other rights of the plaintiff, as a shareholder in SVN, and while breaching the legal obligations of the defendants toward him.

The Company's management and its legal advisers believe that CEI possesses tangible defensive claims against the lawsuit, to the extent that it is directed toward CEI. Consequently, no provision was made on account of the said lawsuit in these financial statements.

In November 2003, the same minority shareholder sent a letter of demand to SVN, demanding that it file a lawsuit against Scitex and others – including directors in SVN – on account of claims regarding a breach of trust, misrepresentation and misleading details regarding Scitex's undertaking to transfer \$15 million to the Scitex Subsidiary, as part of the above-mentioned acquisition. SVN rejected this demand in January 2004. In the event that the said minority shareholder decides to initiate derivative lawsuit proceedings, it will be impossible to assess the outcome of these proceedings at this time and no provision in this respect was included in these financial statements.

Notes to the Financial Statements

Note 20:- Contingent Liabilities and Engagements (Cont'd)

In December 2003, the same minority shareholder filed an additional lawsuit against SVN and other SVN shareholders, including CEI and Scitex. The lawsuit concerns an issue of rights that was completed in July 2003. The lawsuit alleges that the reorganization of the SVN share capital that was conducted in parallel to the issue of rights, is invalid and was carried out in a manner that damages the rights of the minority shareholders. The plaintiff is petitioning to obtain information and documents pertaining to the aforementioned events. It is impossible to assess the outcome of these proceedings at this time and no provision in this respect was included in these financial statements.

- In respect of liabilities on account of statements of compensation provided to directors and other position holders - see Note 30a5.
- Regarding securities (collateral): See Note 22.

2. Engagements

- The Company possesses agreements for the leasing of land and buildings for various periods through to 2013. Future estimated lease payments for 2004 amount to approximately NIS 68 million.
- A subsidiary possesses an exclusive agreement with a third party for the use of technology and a patent developed by that third party, for the purpose of the development, manufacturing and marketing of products. The overall proceeds amount to approximately \$1 million, pursuant to achieving certain milestones. Furthermore, royalties of 3%-5% will be paid, out of the sales in the countries where the patent was registered and half that rate in the countries where the patent was not registered, in addition to royalties ranging between 2%-10% on sub-licenses. Moreover, in the event that the sales of the subsidiary reach a sum of \$100 million, the Company will pay the third party a sum of \$1.5 million.
- The Company possesses agreements for the leasing of motor vehicles, for various periods through to 2007. The anticipated leasing fees in 2004 total NIS 4 million.
- A subsidiary possesses agreements for the receipt of management services from specialized entities in the venture capital and biotechnology sectors, through to 2006. The annual management fees total approximately NIS 3.5 million.

Notes to the Financial StatementsNote 20:- Contingent Liabilities and Engagements (Cont'd)

- In respect of an engagement between the Company and an associated company, see Section B2, below.
- In respect of an engagement with IDB Group companies for the receipt of management services, see Note 30C.
- In respect of engagements for investments in venture capital funds, see Note 9.

B. The Company1. Contingent Liabilities

As at December 31, 2003, the Company possesses guarantees totaling NIS 4 million on account of subsidiaries, including a guarantee in the amount of NIS 3 million for a company in the IDB Group.

In respect of liabilities on account of statements of compensation provided to directors and other position holders - see Note 30a5.

2. Engagements

On December 30, 2001, the General Meeting approved an engagement between the Company and Scitex pursuant to which the Company and Scitex would provide each other with various services related to the management of Scitex and to the relocation of its offices to offices leased by the Company. In return for these services, Scitex paid the Company a sum of NIS 2 million.

Note 21:- Share Capital

A. Composition:

	December 31 2003 and 2002	
	Registered	Issued and Paid-up
	No. of Shares	
Ordinary shares, each of NIS 1 par value	170,000,000	156,862,252

The shares are registered for trade on the Tel-Aviv Stock Exchange.

B. In respect of employee options - See Note 31.

Notes to the Financial Statements

Note 22:- Liens

Collateralized Liabilities – Only of Subsidiaries

	<u>December 31, 2003</u> <u>NIS Millions</u>
Current liabilities to banks	195
Long-term liabilities to banks and others (including current maturities)	87

Securities (Collateral)

Fixed charges (liens) on fixed assets of subsidiaries, including a mortgage on some of the assets of a subsidiary, including goodwill, uncalled share capital, documents for collection, and cash, notes and checks receivable deposited with banks, customer debts, machinery and equipment and 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 20A), certain subsidiaries have recorded fixed and floating liens on their assets in an unlimited amount in favor of the State of Israel.

As of December 31, 2003, 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>Adjusted NIS,</u> <u>millions</u>
Short-term liability from a bank	48
Long-term liabilities:	
Loan from a bank (including current maturities)	30
To an IDB Group company	6

Notes to the Financial Statements

Note 23:- Financial InstrumentsA. Credit Risks

The sales of subsidiaries are made mostly to customers in Israel, the United States and countries of the European Union. The subsidiaries have balances due from 61 borrowers (which are not banks or IDB Group companies), none of which exceeds 5% of shareholders' equity (see Note 7D). Receivables from certain foreign customers are insured through foreign trade risk insurance. The subsidiaries monitor the quality of their receivables on a regular, ongoing basis and include an adequate provision for doubtful debts.

B. Derivative Financial Instruments

As at December 31, 2003, the Company has options to purchase U.S. dollars against shekels in the amount of US \$17 million. The Company also possesses an option to sell US dollars against shekels in the amount of US \$16 million. The said options are intended to bridge expected cash flows in US dollars. The Company has also entered into forward transactions, to hedge an adjusted sum of NIS 200 million against an increase in the CPI. The fair value of these transactions as at December 31, 2003, reflects a liability of NIS 1 million.

As at December 31, 2003, a subsidiary possesses Put options for the sale of pounds sterling (GBP) against US dollars and shekels in a nominal amount of approximately £1.8 million, for purposes of hedging expected cash flows in pounds sterling. Also, as at December 31, 2003, the subsidiary possesses forward exchange contracts for the sale of pounds sterling against US dollars in the amount of £12 million. The fair value of these transactions as at December 31, 2003, reflects a liability of NIS 8 million.

Other subsidiaries possess forward transactions for the purchase of 1.3 million euro (€) in return for NIS 6.5 million; for the purchase of \$6.8 million in return for NIS 31 million and for the purchase of \$4.6 million in return for €3.8 million. These are short-term transactions of up to six months. The fair value of these transactions as at December 31, 2003, reflects a liability of NIS 1 million.

A proportionately-consolidated subsidiary possesses forward transactions for the purchase of \$1.5 million in return for NIS 6.6 million; for the purchase of NIS 0.8 million in return for €0.2 million and for the purchase of NIS 2.6 million in return for \$0.5 million. The proportionately-consolidated subsidiary also possesses an option for the purchase of €1 million in return for NIS 5.4 million, as well as a liability for the purchase of €2 million in return for NIS 10 million. The fair value of these transactions as at December 31, 2003, reflects a profit of NIS 0.5 million.

Notes to the Financial Statements

Note 23:- Financial Instruments (Cont'd)C. Fair Value Of Financial Instruments

The carrying value of cash and cash equivalents, short-term investments, trade receivables, other accounts receivable, credit from banks and others for the short and long –term, trade payables, other accounts payable and convertible debentures – is compliant or similar to their fair value.

D. Currency Risks

Consolidated report of linkage bases as at December 31, 2003:

	CPI- linked	Linked to the U.S. dollar	Linked to other foreign currency	Unlinked	Non- monetary balances	Total
	Adjusted NIS, millions					
Current assets	39	195	108	600	682	1,624
Non-current assets	20	44	-	1	3,478	3,543
Current Liabilities	(207)	(179)	(166)	(954)	(9)	(1,515)
Non-current liabilities	(1,057)	(68)	(12)	(35)	(472)	(1,644)
Net balance sheet amounts	(1,205)	(8)	(70)	(388)	3,679	2,008

Note 24:- Cost of Sales and Services

	Consolidated		
	For the year ended		
	December 31		
	2003	2002	2001
	Adjusted NIS, millions		
Materials used and cost of merchandise sold	917	939	1,012
Salaries and related expenses	301	350	476
Contract work (outsourcing)	157	162	152
Depreciation and amortization	121	184	227
Research and development costs (net of participations: NIS 10 million; 2002: NIS 3 million; 2001: NIS 8 million)	27	24	29
Other manufacturing expenses	325	291	407
	1,848	1,950	2,303
Decrease (increase) in finished goods and work-in-process inventories	60	(11)	(27)
	1,908	1,939	2,276

Notes to the Financial Statements

Note 25:- Selling and Marketing Expenses

Salaries and related expenses	139	127	134
Advertising	28	26	27
Depreciation	15	17	17
Rental and building maintenance	104	102	106
Commissions and royalties	22	21	31
Other	111	96	76
	<u>419</u>	<u>389</u>	<u>391</u>

Note 26:- General & Administrative Expenses

	<u>Consolidated</u>			<u>The Company</u>		
	<u>For the year ended</u>			<u>For the year ended</u>		
	<u>December 31</u>			<u>December 31</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS, millions</u>					
Salaries and related expenses	95	99	116	-	-	-
Participation in management expenses	8	3	5	4	4	4
Depreciation	13	13	13	-	1	1
Rental and building maintenance	12	10	18	-	-	-
Professional services	19	23	17	1	1	-
Doubtful and bad debts	-	5	2	-	-	-
Other	49	38	43	1	1	1
	<u>196</u>	<u>191</u>	<u>214</u>	<u>6</u>	<u>7</u>	<u>6</u>

Notes to the Financial Statements

Note 27:- Other Expenses (Income), Net

Gain (loss) from realization of investments, net *)						
At subsidiaries	1	(12)	(281)	-	-	(280)
At associated companies	13	4	30	6	3	-
At other companies	-	(7)	(73)	-	(1)	1
Impairment of investments, net	88	208	420	17	52	69
Realization of other assets	(4)	(2)	(6)	-	-	-
Amortization of goodwill in investee companies, net	7	3	16	-	-	-
Provision for early retirement settlements (**)	74	17	-	-	-	-
Losses on closure and scaling down of production lines and relocation of plants	-	-	64	-	-	-
Other Expenses (Income), Net	(16)	(13)	5	(3)	4	9
	<u>163</u>	<u>198</u>	<u>175</u>	<u>20</u>	<u>58</u>	<u>(201)</u>

(* Includes net losses (gains) from changes in holdings due to issue of shares and conversion of convertible securities -

At proportionately-consolidated subsidiary	(1)	-	-	-	-	-
At associated companies	20	2	30	6	1	-

(**) Attributed primarily to early retirement settlements reached by a proportionately-consolidated subsidiary with certain of its employees.

Notes to the Financial Statements

Note 28:- Financial Expenses, net

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS, millions					
In respect of:						
Cash and short-term loans, deposits and liabilities	41	10	74	10	3	35
Trade and other receivables and payables	8	3	(7)	5	(1)	-
Securities	2	5	(1)	-	1	-
Long-term loans and deposits	(7)	(14)	(6)	(8)	(22)	(7)
Debentures	29	28	11	29	27	11
Long-Term Loans	31	44	40	6	24	23
Forward transactions	11	2	1	6	1	-
Others	2	-	-	1	-	-
	<u>117</u>	<u>78</u>	<u>112</u>	<u>49</u>	<u>33</u>	<u>62</u>

Note 29:- Taxes on IncomeA. 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 the construction or expansion of a number of Group plants have been accorded "Approved Enterprise" status in conformity with the Law for the Encouragement of Capital Investments - 1959. The principal benefits under this law include a reduced taxation rate of 25% for prescribed periods, while some of the Group plants are afforded a period of full tax exemption during the first few years of the benefit period. The tax benefits are subject to the fulfillment of the conditions in the letters of approval.

Dividends distributed from the revenues of an Approved Enterprise are liable for taxation at a rate of 15%. The investee companies have adopted a policy not to initiate dividend distribution that will result in an additional tax liability for the holding companies.

Notes to the Financial Statements

Note 29:- Taxes on Income (Cont'd)B. Taxes on Income in the Statements of Income

	Consolidated		
	For the year ended December 31		
	2003	2002	2001
	Adjusted NIS, millions		
Current taxes	65	63	126
Deferred Taxes	(48)	5	(19)
Taxes in respect of preceding years, net	(7)	1	12
	<u>10</u>	<u>69</u>	<u>119</u>

At the Company – A tax benefit of NIS 13 million was recorded in 2003 as a result of the creation of deferred taxes (see also Note 8J). No taxes on income were recorded by the Group in the years 2002 and 2001.

C. Deferred Taxes

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Depreciable assets	(257)	(248)	-	-
Adjustment of inventories	(1)	(16)	-	-
Provisions for employee rights, provision for doubtful debts and other	49	49	-	-
Carryforward losses (1)	51	9	13	-
	<u>(158)</u>	<u>(206)</u>	<u>13</u>	<u>-</u>

(1) The Company possesses carryover losses in the amount of NIS 150 million, while other subsidiaries possess losses for tax purposes in the amount of NIS 444 million, on account of which no deferred taxes were created, since the Group does not anticipate being able to realize these in the foreseeable future.

Notes to the Financial Statements

Note 29:- Taxes on Income (Cont'd)

- (2) The deferred taxes were computed at average tax rates ranging between 25% and 36% (In 2002: between 32% and 36%) and are presented in the balance sheet as follows:

	Consolidated		The Company	
	December 31		December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
In long-term liabilities	(230)	(237)	-	-
In current assets – deferred tax benefits *)	51	9	13	-
In other assets – tax benefits	21	22	-	-
	<u>(158)</u>	<u>(206)</u>	<u>13</u>	<u>-</u>

- (* The realization of the tax benefits is dependent upon future taxable income.

Net Movement in Deferred Taxes

	Consolidated		The Company	
	For the year ended December 31		For the year ended December 31	
	2003	2002	2003	2002
	Adjusted NIS, millions			
Balance at beginning of year	(206)	(201)	-	-
Amounts charged to the statement of income	48	(5)	13	-
Balance at end of year	<u>(158)</u>	<u>(206)</u>	<u>13</u>	<u>-</u>

Notes to the Financial Statements

Note 29:- Taxes on Income (Cont'd)D. Effective Taxes

	<u>Consolidated</u>			<u>The Company</u>		
	<u>For the year ended</u>			<u>For the year ended</u>		
	<u>December 31</u>			<u>December 31</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS, millions</u>					
Taxes computed at regular tax rate of 36%	(39)	(118)	(291)	(50)	(150)	(251)
Increase (decrease) in tax liability due to:						
Losses and benefits for tax purposes, on account of which no deferred taxes were charged	49	27	41	7	41	41
Utilization of losses and benefits from preceding years, on account of which no tax benefits were previously charged	(22)	(21)	(3)	-	-	-
Exempt revenues, unrecognized expenses or revenues liable at reduced rates *)	29	125	366	30	109	210
Reduced tax rate for approved enterprises	(7)	(6)	(33)	-	-	-
Differences in definition of capital and assets for tax purposes	2	60	26	-	-	-
Taxes in respect of preceding years	(7)	1	12	-	-	-
Other differences	5	1	1	-	-	-
	<u>10</u>	<u>69</u>	<u>119</u>	<u>(13)</u>	<u>-</u>	<u>-</u>

(* Primarily the share in the net losses (earnings) or investee companies, write-downs for impairment of investments and the sale of shares between Group companies.

E. Final Tax Assessments

The Company has self-assessments that are deemed final through to and including 1999. The principal subsidiaries have received final assessments (including self assessments that are deemed final) for years ranging between 1997 and 2001.

Notes to the Financial Statements

Note 30:- Interested PartiesA. Transactions with Interested Parties:

1. The Company, its subsidiaries and related companies conduct transactions in the ordinary course of business with entities that are related parties, in relation to the purchase or sale of products or services that are not unusual transactions. To the best of the Company's knowledge, these include transactions related to the provision of legal services, insurance (including employee fidelity insurance, asset and property insurance and manager insurance), rental and leasing, banking services, financial services (including: portfolio management and investment consulting), tourism services, procurement and/or vehicle rental, transportation and shipping services, administrative services and engagements with equipment suppliers for ongoing use and consumption.

By virtue of its authority pursuant to Regulation 64 of the Securities Regulations (Preparation of Annual Financial Statements) – 1993, the Securities Authority has exempted the Company from providing a description of such transactions with related parties of the Company and its subsidiaries and related companies in the ordinary course of business, except for extraordinary transactions, provided that this exemption does not harm the interests of any investor in the Company's securities. Accordingly, the financial statements do not include a description of such transactions. To the Company's knowledge, the exemption from the description of such transactions does not harm the interests of any investor in the Company's securities.

2. Pursuant to an existing agreement regarding the payment of management fees in a fixed annual sum to IDB Development Corporation Ltd., the Company made management fee payments in the sum of approximately NIS 2 million in 2003.
3. Officer liability at the Company and at several of its subsidiaries was insured in 2003 by Clal Insurance Company Ltd. – an interested party in the Company – with part of the insurance coverage applying to officers at the Company and at wholly-owned subsidiaries. The Company paid approximately NIS 1.5 million for this insurance and part of it was shared with officers at IDB Holding Corporation Ltd. (hereinafter: "IDB Holdings") and certain of its investee companies, including the Company, and for which the Company participated in a proportionate amount of the cost of the insurance, totaling approximately NIS 1 million.

Notes to the Financial Statements

Note 30:- Interested Parties (Cont'd)

4. Several interested parties in the Company, that are not officers of the Company, that together constitute controlling shareholders – together with the Company – in a related company of the Company's, received from the said related company, during the reported period, salaries, related expenses and management fees – in return for their work at the said related company – in the total sum of approximately NIS 1.4 million, plus interest in the amount of NIS 2 million.
5. Directors and other officers of the Company received letters of indemnity, in accordance with the decision of the General Meeting, dated April 25, 2002.
6. In respect of an engagement between the Company and an associated company that is an interested party - See Note 20B2.

B. Interested Party Balances *):

	<u>Consolidated</u>	
	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS, millions</u>	
(1) Banks		
Liabilities:		
Current Liabilities	255	165
Long-term liabilities (see Note 17)	268	524
(2) Others		
Assets:		
Short-term investments -		
Short-term loans	86	58
Long-term deposits, loans and debts (see Note 7)	-	1
Deposits with severance pay funds	9	5
Liabilities:		
Other Current Liabilities	9	15
Long-term liabilities (see Note 17)		
Capital notes	7	7
Non-marketable debentures (**)	73	73
Other	10	15

(* Data on highest balances during the year are not included since they are impracticable to provide.

(** No details are presented regarding debentures registered in the stock exchange clearinghouse, since this is impracticable.

Notes to the Financial Statements

Note 30:- Interested Parties (Cont'd)

- C. A subsidiary participates in the expenses of an IDB Group company in the amount of NIS 4 million, of which NIS 2 million on account of the Company's participation in the wages of joint CEOs (In 2002: NIS 2 million).
- D. Remuneration of Directors and General Managers

	For the year ended		
	December 31		
	2003	2002	2001
	Adjusted NIS, thousands		
Directors' compensation *)	445	445	569
Compensation of joint CEOs **)	1,730	-	-
Compensation of former General Manager ***)	2,008	1,799	1,839
Compensation of former General Manager	-	-	1,763

(* 2003: 9 directors; 2002: 7 directors; 2001: 9 directors)

(** On January 20, 2004, an engagement was approved between the Company and IDB Holdings, the controlling shareholder in the Company, in an agreement pursuant to which IDB Holdings provides the Company with management services by way of making available the services of Messrs. Avi Fisher and Zvi Livnat, who serve as directors of the Company and as Deputy CEOs of IDB Holdings, in order that each of them serve as Joint CEO of the Company, at a scope of 80% of the scope of their position at IDB Holdings, that is a full-time position. As compensation for the provision of the management services, the Company will refund IDB Holdings 80% of the entire sums that shall be paid to Messrs. Zvi Livnat and Avi Fisher, by IDB Holdings, according to the terms of their employment as Deputy CEOs of IDB Holdings, including all provisions and costs related to their employment (on account of the period beginning June 9, 2003 and thereafter), provided that these do not exceed the sums detailed below: A monthly salary of NIS 128 thousand, linked to the CPI, provision of a company car and the coverage of the car's expenses, as well as the reimbursement of telephone expenses (full compensation), provisions for manager's insurance and a continuing education fund – all in addition to supplementary sums included in the calculation of the overall cost to the employer. Furthermore, the Company shall reimburse IDB Holdings for the full expenses incurred by the Company's Joint CEOs, in their said positions, in accordance with the Company's procedures.

(*** Actual wages on account of 2003. In addition, in accordance with the employment contract of the Company's former CEO (hereinafter: "The CEO"), the CEO shall be eligible to announce the termination of his employment at the Company, in the event of a transfer of control over IDB Holding Corporation Ltd. (hereinafter: "IDB Holdings"). In the event of the said case, the CEO shall be eligible to receive the continued payments pursuant to his employment contract, until January 2008. The total annual cost of the CEO's salary amounts to NIS 2 million. The control over IDB Holdings was transferred on May 19, 2003. The CEOs employment was terminated in early June 2003. The financial statements include a provision in this respect.

Regarding stock options granted to the former General Managers, see Note 31.

Notes to the Financial Statements

Note 31:- Employee Stock OptionsA. Options Granted by the Company

1. According to a stock option plan dated from August 1997 (hereinafter: "The Company's Plan from August 1997"), position holders and officers at the Company were granted, without consideration, options to purchase up to 876,000 Ordinary shares of NIS 1 par value of the Company. This includes 150,000 options granted to the former CEO. The options were granted in three consecutive annual tranches starting October 1997. Each tranche may be exercised in the course of three years following the termination of two years from the date it was granted. As at the date of the financial statements, only the last tranche remains. The exercise price of the third tranche was set at NIS 20.58. The said exercise price is intended exclusively for the calculation of the inherent benefit of the options in comparison with the stock exchange price, at the exercise date of the options. In any case, in respect of options exercised, the Company will issue to the option holders shares whose overall value on the stock exchange at the date of exercise equals the benefit component, in consideration for their par value only.

The balance of the outstanding options as at the balance sheet date is 217,000.

2. According to a stock option plan dated January 2001 (hereinafter: "The Company's Plan from January 2001"), position holders and officers at the Company were granted, on May 20, 2001, options to purchase up to 1,370,134 Ordinary shares of the Company. This includes 402,685 options granted to the Company's former CEO. The options vest in four equal tranches. The options in each of the tranches may be exercised for a period of two years commencing as follows: first portion two years after grant date; second portion three years after grant date; third portion four years after grant date; fourth portion five years after grant date. The exercise price of the first tranche was set at NIS 15.51 (the said price was determined subsequent to a decision of the Company's board of directors dated April 2002, regarding the correction of the exercise price of the first tranche). The price for the second tranche was set at NIS 15.51 and NIS 10.57 for the third tranche. The price for the fourth tranche will be determined in May 2004. The exercise price will be the average closing price of the Company share on the stock exchange in the 30 trading days preceding its determining date, less 10% (or the price determined for the first tranche, the lowest of the two). This price (after adjustment on account of dividend distribution) is linked to the CPI, starting with the Known Index on the day the price was set, as stated above, and until the Known Index on the exercise date. The said exercise price is intended exclusively for the calculation of the inherent benefit of the options in comparison with the stock exchange price, at the exercise date of the options. In any case, in respect of options exercised, the Company will issue to the option holders shares whose overall value on the stock exchange at the date of exercise equals the benefit component, in consideration for their par value only.

The balance of the outstanding options as at the balance sheet date is 727,852.

Note 31:- Employee Stock Options (Cont'd)

3. According to a stock option plan from August 2001 (hereinafter: “The Company’s Plan from August 2001”), options to purchase up to 746,778 Ordinary shares of the Company were granted to position holders and officers at the Company on January 21, 2002. The options vest in four equal tranches. The options in each of the tranches may be exercised for a period of two years commencing as follows: first portion two years after grant date; second portion three years after grant date; third portion four years after grant date; fourth portion five years after grant date. The exercise price for the first tranche was set at NIS 22.36, for the second tranche at NIS 10.56 and NIS 18.36 for the third tranche. The price for the fourth tranche will be determined in January 2005. The exercise price will be the average closing price of the Company share on the stock exchange in the 30 trading days preceding its determining date, less 10% (or the price determined for the first tranche, the lowest of the two). This price (after adjustment on account of dividend distribution) is linked to the CPI, starting with the Known Index on the day the price was set, as stated above, and until the Known Index on the exercise date. The said exercise price is intended exclusively for the calculation of the inherent benefit of the options in comparison with the stock exchange price, at the exercise date of the options. In any case, in respect of options exercised, the Company will issue to the option holders shares whose overall value on the stock exchange at the date of exercise equals the benefit component, in consideration for their par value only.

A. Options Granted by the Company (Cont’d)

In March 2002, the Company’s Board of Directors decided to grant additional offerees – who were not included in the Company’s Plan from August 2001 – options to purchase up to 154,287 Ordinary shares of the Company. One quarter of the options may be exercised over a period of two years, beginning two years after the date they were granted. The basic exercise price was set at NIS 22.41 (after adjustment on account of dividend distribution) and is linked to the CPI, starting with the Known Index on the date of approval of the plan (August 2001). The exercise price and the granting of the benefit for the three additional consecutive tranches are identical to the Company’s Plan from August 2001.

In August 2002, the Company’s Board of Directors decided to grant an additional offeree – who was not included in the Company’s Plan from August 2001 – options to purchase up to 205,724 Ordinary shares of the Company. The options vest in three equal portions. One third of the options may be exercised over a period of two years, beginning two years after the date they were granted. The exercise price (after adjustment on account of dividend distribution) and the granting of the first, second and third tranches, respectively, are identical to the price that was set for the second, third and fourth tranches of the Company’s Plan from August 2001.

The balance of the outstanding options as at the balance sheet date is 901,065.

Notes to the Financial Statements

4. A stock option plan from December 2003 calls for the allocation of 68,575 options to an officer of the Company. These options may be exercised into up to 68,575 Ordinary shares of the Company. Half of these options may be exercised over a period of two years starting January 21, 2006, while the second tranche may be exercised over a period of two years starting January 21, 2007. The exercise price (after adjustment on account of dividend distribution) and the granting of the first and second tranches, are respectively identical to the price that was set for the third and fourth tranches of the Company's Plan from August 2001.

These options were not yet allocated as at the balance sheet date and their allocation is contingent upon receiving the necessary authorizations.

B. Options Granted by CEI

As part of the process of the merger of the Company with CEI, options granted to employees by CEI were converted into options for the acquisition of shares of the Company. The conversion ratio that was established (12 options for Company shares in return for each option for CEI shares) was identical to the conversion ratio that was determined for the replacement of the CEI shares into Company shares, and the exercise price that was determined for the new options was determined according to the same ratio, respectively (hereinafter: "The Respective Ratio").

1. According to a plan from September 1997, position holders and officers at CEI were granted, without consideration, options to purchase up to 15,366 Ordinary shares of CEI. The options were granted in three consecutive annual tranches starting November 1997. Each tranche may be exercised in the course of three years following the termination of two years from the date it was granted. The exercise price and the granting of the benefit for these options are identical to the Company's Plan from August 1997. As at the date of the financial statements, only the last tranche remains. The exercise price of the third tranche was set at NIS 43.79 (after adjustment).

The balance of the outstanding options as at the balance sheet date is 30,744 (after adjustment).

Notes to the Financial Statements

Note 31:- Employee Stock Options (Cont'd)B. Options Granted by CEI

2. According to a stock option plan from January 2001, that was approved by the General Meeting of shareholders of CEI, options were granted to position holders and officers of CEI to purchase up to 41,192 Ordinary shares of CEI. The options vest in four equal tranches. The options in each of the tranches may be exercised for a period of two years commencing as follows: first portion two years after grant date; second portion three years after grant date; third portion four years after grant date; fourth portion five years after grant date. The exercise price of the first tranche was set at NIS 19.52 (after adjustment). The price for the second tranche was set at NIS 19.52 (after adjustment), NIS 9.32 for the third tranche (after adjustment) and NIS 20.33 for the fourth tranche (after adjustment). The exercise price and the granting of the benefit for these options are identical to the Company's Plan from January 2001.

The balance of the outstanding options as at the balance sheet date is 334,200 (after adjustment).

The above-mentioned employee stock option plans are subject to regulations determined in this matter in the Income Tax Ordinance, stipulating – inter alia – that the Company or a consolidated subsidiary will be able to claim as recognized expenses for tax purposes, sums charged to the employees as a benefit on account of the sale of shares originating from options received as part of the plan, in the event that the shares are sold at a price that exceeds the exercise price thereupon, with the said benefit being liable for income tax, on the part of the employee.

Note 32:- Business Sector Information

Group companies engage in activities in different business sectors, 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 that are presented in the financial statements as investments and the Group's equity in their results of operation. Sector information is as follows:

Notes to the Financial Statements

Note 32:- Business Sector Information (Cont'd)A. Statement of Income Data

1. Distribution by Business Sector

	Consolidated							
	For the year ended December 31, 2003							
	Cement	Textile	High- technology and electronics	Venture Capital Funds	Bio- technology	Real Estate	Others	Total
	Adjusted NIS, millions							
Revenues from sales and services	809	1,547	28	-	-	49	269	2,702
Equity in earnings (losses) of associated companies	(1)	-	(16)	-	(36)	-	41	(12)
Other Income (Expenses)	(89)	11	(45)	(27)	(30)	2	(9)	(187)
Sector results	119	36	(73)	(30)	(93)	27	38	24
Unallocated expenses, net								(20)
Profit from ordinary operations								4
Unallocated financial expenses, net								(117)
Taxes on Income								(10)
Minority interest in subsidiary earnings								(6)
Loss								(129)

.2 Distribution of Revenues from Sales and Services by Geographical Segments

	For the year ended December 31, 2003
	Adjusted NIS, millions
Israel	1,736
North America	371
Europe	487
Other countries	108
Total	2,702

Notes to the Financial Statements

Note 32:- Business Sector Information (Cont'd)A. Statement of Income Data

1. Distribution by Business Sector

	Consolidated							
	For the year ended December 31, 2002							
	Cement	Textile	High- technology and electronics	Venture Capital Funds	Bio- technology	Real Estate	Others	Total
Adjusted NIS, millions								
Revenues from sales and services	767	1,534	15	-	-	111	263	2,690
Equity in earnings (losses) of associated companies	-	-	(227)	-	(39)	-	43	(223)
Other Income (Expenses)	(1)	4	(64)	(72)	(57)	1	(15)	(204)
Sector results	108	62	(303)	(76)	(123)	62	26	(244)
Unallocated expenses, net								(6)
Loss from ordinary operations								(250)
Unallocated financial expenses, net								(78)
Taxes on Income								(69)
Minority interest in subsidiary earnings								(21)
Loss								(418)

.2 Distribution of Revenues from Sales and Services by Geographical Segments

	For the year ended	
	Dec-31-2002	
	Adjusted NIS, millions	
Israel	1,770	
North America	262	
Europe	435	
Other countries	223	
Total	2,690	

Notes to the Financial Statements

Note 32:- Business Sector Information (Cont'd)A. Statement of Income Data

1. Distribution by Business Sector

	Consolidated							Total
	For the year ended December 31, 2001							
	Cement	Textile	High- technology and electronics	Venture Capital Funds	Bio- technology	Real Estate	Others	
	Adjusted NIS, millions							
Revenues from sales and services	957	1,506	80	-	-	207	396	3,146
Equity in earnings (losses) of associated companies	-	-	(774)	-	(28)	-	16	(786)
Other Income (Expenses)	280	(56)	(271)	(73)	47	(1)	(101)	(175)
Sector results	433	(20)	(1,153)	(97)	23	108	7	(699)
Unallocated revenues, net								3
Loss from ordinary operations								(696)
Unallocated financial expenses, net								(112)
Taxes on Income								(119)
Minority interest in subsidiary losses								229
Loss								(698)

.2 Distribution of Revenues from Sales and Services by Geographical Segments

	For the year ended December 31, 2001	
	Adjusted NIS, millions	
Israel	2,277	
North America	275	
Europe	472	
Other countries	122	
Total	3,146	

Notes to the Financial Statements

Note 32:- Business Sector Information (Cont'd)B. Balance Sheet Data

	Consolidated							Total
	December 31, 2003							
	Cement	Textile	High- technology and electronics	Venture Capital Funds Adjusted	Bio- technology NIS, millions	Real Estate	Others	
Sector assets								
Investments in associated companies	-	-	677	-	36	-	486	1,199
Assets	1,620	1,016	149	160	116	140	299	3,500
Unallocated assets								468
Total assets								5,167
Sector liabilities	252	338	16	3	4	31	101	745
Unallocated liabilities								2,319
Total liabilities								3,064
Capital Investments	-	-	24	45	16	-	14	99
Depreciation and amortization	74	50	6	-	7	5	29	171

Notes to the Financial Statements

Note 32:- Business Sector Information (Cont'd)B. Balance Sheet Data

	Consolidated							Total
	December 31, 2002							
	Cement	Textile	High- technology and electronics	Venture Capital Funds Adjusted	Bio- technology NIS, millions	Real Estate	Others	
Sector assets								
Investments in associated companies	-	-	838	-	64	-	425	1,327
Assets	1,634	1,089	136	180	133	144	413	3,729
Unallocated assets								292
Total assets								5,348
Sector liabilities	188	364	8	3	5	20	76	664
Unallocated liabilities								2,074
Total liabilities								2,738
Capital Investments	-	-	81	25	8	-	28	142
Depreciation and amortization	132	56	4	-	4	15	38	249

Notes to the Financial StatementsNote 33:- Loss Per Share

Number of shares and net loss used in calculation of net loss per share:

	Consolidated		
	For the year ended		
	December 31		
	2003	2002	2001
	Adjusted NIS, millions		
Number of shares used in calculation of loss per share (in millions)	<u>157</u>	<u>157</u>	<u>148</u>
Net loss according to statement of income	<u>(129)</u>	<u>(418)</u>	<u>(698)</u>

Note 34:- Event Subsequent to Balance Sheet Date

On March 28, 2004, the Company announced a dividend in the sum of NIS 270 million, representing NIS 1.72 per every NIS 1 par value. The dividend will be paid on April 28, 2004, with the determining date being April 8, 2004 and the X-date being April 13, 2004. The dividend is presented under a separate item in shareholders' equity: "Dividend Declared Subsequent to Balance Sheet Date".

Note 35:- Summarized Financial Statements in Nominal ValuesA. Company Balance Sheets

	As at December 31	
	2003	2002
	NIS Millions	
Investments in investee and other companies	2,568	2,404
Other Assets and Deferred Charges	33	34
Monetary items, net	<u>(716)</u>	<u>(429)</u>
Shareholders' equity, see C below	<u>1,885</u>	<u>2,009</u>

Notes to the Financial Statements

Note 35:- Summarized Financial Statements in Nominal Values (Cont'd)

B. Company Statements of Income

	For the year ended December 31		
	2003	2002	2001
	NIS Millions		
Revenues			
Equity in earnings (losses) of investee companies, net	206	(303)	(512)
Other Income (Expenses), net	(4)	(50)	(45)
	202	(353)	(557)
Costs and expenses			
General & Administrative Expenses	6	6	5
Financial Expenses	27	110	78
	33	116	83
Earnings (loss) before tax benefit	169	(469)	(640)
Tax benefit	13	-	-
	182	(469)	(640)

C. Statements of Changes in Shareholders' Equity

	Share Capital	Capital Reserves	Retained Earnings (Loss)	Total
	NIS Millions			
<u>Balance as at January 1, 2001</u>	140	140	2,501	2,781
Issue of share capital	17	320	-	337
Net Income	-	-	(640)	(640)
<u>Balance as at December 31, 2001</u>	157	460	1,861	2,478
Net Income	-	-	(469)	(469)
<u>Balance as at December 31, 2002</u>	157	460	1,392	2,009
Net Income	-	-	182	182
Dividend	-	-	(306)	(306)
<u>Balance as at December 31, 2003</u>	157	460	1,268	1,885

Appendix to the Financial Statements

Principal Investee Companies

Company Name	Holding Company (*)	Holdings %
Ormat Industries Ltd. (1)	Clal Industries and Investments Ltd.	18.6
Infinity Israel Venture Capital Fund (Israel) - Limited Partnership	CEI Industries Ltd.	59.3
	Clal Industries and Investments Ltd.	39.5
F.B.R. Infinity Ventures (Israel) – venture capital fund (Israel) – limited partnership	CEI Industries Ltd.	45.3
	Clal Industries and Investments Ltd.	45.3
ECI Telecom Ltd.	CEI Industries Ltd.	14.1
Scitex Vision Ltd.	CEI Industries Ltd.	7.0
Barak I.T.C. (1995) - International Telecommunications Services Corp. Ltd.	Clalcom Ltd.	44.0
D-Pharm Ltd.	Clal Biotechnology Industry Ltd.	26.6
The Central Israeli Company for Commerce and Investments Ltd.	Clal Industries and Investments Ltd.	100.0
Bagir (1961) Ltd.	Polgat Ltd.	100.0
Guney Polgat Sanayi ve Ticaret Anonim Sirketi	Bagir (1961) Ltd.	51.0
Tango Ltd.	Kitan Consolidated Ltd.	100.0
Jaf-Ora Ltd.	Clal Industries and Investments Ltd.	30.4
Clal Central Industrial Financing (1962) Ltd.	Clal Industries and Investments Ltd.	100.0
Clalcom Ltd.	Clal Industries and Investments Ltd.	71.5
Clal Venture Capital Fund – Limited Partnership	Clal Industries and Investments Ltd.	33.0
	CEI Industries Ltd.	33.0
CEI Industries Ltd.	Clal Industries and Investments Ltd.	100.0
Clal Biotechnology Industry Ltd.	Clal Industries and Investments Ltd.	100.0
Multiples Investments and Developments Ltd.	Taavura Holdings Ltd.	88.4
Maman - Cargo Terminals and Handling Ltd. (2)	Taavura Holdings Ltd.	35.8
Beit Shemesh Engine Holdings (1997) Ltd. (1)	Clal Industries and Investments Ltd.	21.1
American Israeli Paper Mills Ltd.	Clal Industries and Investments Ltd.	32.6

Appendix to the Financial Statements

Company Name	Holding Company (*)	Holdings
Mashav Initiating and Development Ltd.	Clal Industries and Investments Ltd.	25.0
	The Central Israeli Company for Commerce and Investments Ltd.	50.0
Mediwound Ltd.	Clal Biotechnology Industry Ltd.	80.0
Negevtech Ltd.	CEI Industries Ltd.	24.5
Nova Measuring Instruments Ltd.	CEI Industries Ltd.	18.7
Nesher Israeli Cement Enterprises Ltd.	Mashav Initiating and Development Ltd.	100.0
Scitex Corporation Ltd.	CEI Industries Ltd.	22.2
Fundtech Ltd.	Clal Industries and Investments Ltd.	35.5
Polgat Ltd.	Clal Industries and Investments Ltd.	70.8
Golf AK Group Ltd.	Kitan Consolidated Ltd.	100.0
K.B.A. Townbuilders Group Ltd.	The Central Israeli Company for Commerce and Investments Ltd.	52.9
Cargal Ltd. (3)	Clal Industries and Investments Ltd.	27.4
Applied Radiation - Jordan Valley Ltd.	CEI Industries Ltd.	57.1
Shellcase Ltd.	CEI Industries Ltd.	28.9
Taavura Holdings Ltd.	Nesher Israeli Cement Enterprises Ltd.	50.0
Kitan Consolidated Ltd.	Clal Industries and Investments Ltd.	73.6
	The Central Israeli Company for Commerce and Investments Ltd.	26.4
Millennium Materials Technologies Funds L.P.	Clal Industries and Investments Ltd.	50.0

(1) Direct and indirect holding through wholly-owned subsidiary

(2) Direct and indirect holding (through Multiple Investments and Developing Ltd.)

(3) Indirect holding through wholly-owned subsidiary

(*) Directly or indirectly. Holdings by a consolidated subsidiary include full holding percentage.