

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD JANUARY - MARCH 2001

1. Description of Company

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

CII is principally engaged in the acquisition, establishment and development of companies in various industries and takes an active role in the management of its investee companies, particularly so when it is the largest investor. The Company has access to a range of commercial opportunities, remaining constantly alert for investments with appropriate potential returns. Simultaneously, the Company aspires to enhance the value of its existing investments, with a view to realizing those investments at the appropriate time.

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

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

On May 21, 2001, the Company entered into a share exchange merger agreement with a subsidiary, Clal Electronic Industries Ltd. (“CEI”) (“the merger agreement”). Under the terms of the merger agreement, the shareholders of CEI (other than the Company) will transfer all their shares to the Company, such that, subsequent to the merger, the Company will hold all of the shares of CEI. The Company’s Board of Directors has approved the rate of the share exchange, insofar as the Company will issue twelve of its shares for each share of CEI transferred to the Company (as proposed by a joint appraiser), subject to any changes that may occur in the circumstances of the companies in the period prior to the convening of the companies in general meeting. The Company has also obtained a further opinion with respect to the reasonableness of the consideration from the Company’s perspective. In addition, it is determined in the merger agreement that the exchange ratio shall remain unaltered if, in consequence of a review to be undertaken immediately prior to the convening of the companies in general meeting, the joint appraiser discovers that the exchange ratio has changed by up to 5%.

On May 24, 2001 the Company and CEI obtained a court order relating to the convening of shareholders’ and creditors’ meetings for the purpose of approving the merger.

On May 30, 2001 CEI published a report under the Securities (Transaction between a Company and a Controlling Shareholder) Regulations, 2001.

Implementation of the merger is subject to any of the approvals legally required as set out in the merger agreement, including the approvals of the shareholders’ meetings of the Company and CEI.

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

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

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

2. *Results of operations*

- A. The net loss for the reported period amounted to NIS 216 million, as compared to net income of NIS 44 million in the corresponding period of the previous year and a loss of NIS 87 million for 2000 as a whole.

The loss includes the effects of net negative non-recurring factors totaling NIS 162 million, stemming principally from write-offs made by ECI (NIS 73 million), the amortization of the balance of the goodwill arising on the investment of CEI in ECI (NIS 54 million) and the write-off of investments in investee companies (NIS 42 million). In the corresponding period of the previous year, there were net positive non-recurring factors totaling NIS 22 million.

The decrease in current income stems primarily from the transition to loss-making in ECI, as well as from the Company's equity in the loss of venture capital funds which, in the corresponding period in the previous year, reported gains on the realization of investments.

- B. We set out below a review of the operations of the principal companies in the first quarter (*):

Nesher - There was a reduction in the sale of cement as compared to the corresponding quarter of the previous year, which was due primarily to a 12% reduction in sales volume. The net income for the quarter of companies in the cement sector totaled NIS 22 million, which was similar to that of the corresponding quarter of the previous year. Despite the reduction in sales, the company continued to earn net income. The cessation of operations of old production lines led to a reduction in energy costs and financing expenses.

ECI - ECI reported a loss in the current quarter from continuing operations before adjustment for non-recurring expenses of NIS 176 million, as compared to a profit from continuing operations of NIS 85 million in the corresponding period of the previous year. The loss in the first quarter is computed after accounting for the writing-off of inventories, a decrease in the value of assets and reorganization expenses totaling NIS 897 million. Sales for the quarter amounted to NIS 1,059 million, as compared to NIS 1,102 million in the corresponding quarter of the previous year.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

As of January 1, 2001, the commercial operations of the principal divisions of ECI were transferred to five subsidiaries. The expenses of ECI for the quarter were affected by the costs associated with the reorganization process and by the global recession in the communications equipment market. At the end of April 2001, ECI announced a program of cost-saving measures, which included a reduction in the workforce and a decrease in the salary costs of senior management.

Scitex - Sales for the quarter amounted to NIS 269 million. Scitex has reported an improvement in the operating cost position with respect to the digital printing operations, which recorded an increase in income for the quarter of 21%, as compared to the corresponding quarter of the previous year. Operating income before adjustment for amortization of goodwill, amounted to NIS 23 million. After adjusting for the company's equity in the losses of Creo (NIS 40 million), the loss for the quarter amounted to NIS 51 million.

AIPM - Net income for the first quarter of 2001 amounted to NIS 11 million, as compared to income of NIS 16 million before adjustment for non-recurring gains in the corresponding quarter of the previous year. Despite the quantitative increase in the output of most of the company's production lines, sales for the quarter decreased by 9% from NIS 137 million in the corresponding quarter of the previous year (pro forma data) to NIS 125 million for the quarter under review. The efficiency program undertaken by AIPM led to a general reduction in costs and to a situation in which the operating profit level was maintained. The reduction in current net income was due mainly to the decline in the profitability of associated companies, offset in part by an increase in financing income.

Kitan - Net income for the reported period amounted to NIS 8 million, as compared to NIS 5 million for the corresponding period of the previous year. The increase in income stemmed from an improvement in retail operations, which saw an increase in sales turnover, with the current level of costs being maintained.

Polgat - Sales for the quarter amounted to NIS 153 million, as compared to NIS 128 million in the corresponding quarter of the previous year. There was a slight reduction in net income from NIS 2.6 million in the corresponding quarter of the previous year to NIS 2.4 million in the period under review. During the reported period, Bagir continued its transfer of manufacturing operations to locations outside Israel, with a view to reducing significantly its level of manufacturing costs.

In addition, during the reported period, the merger between Polgat Textiles and the Turkish group, Guney Sanayi, was completed, such that Polgat now holds 45% of the ownership of the joint company, Guney-Polgat.

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

Barak - The increase in revenues continued, reaching NIS 147 million, as compared to NIS 106 million in the corresponding period in the previous year. In the current quarter, Barak presented an operating profit of NIS 1 million, as compared to a loss of NIS 36 million in the corresponding period of the previous year. During the course of the reported period, the financing expenses of Barak increased by NIS 28 million as compared to the corresponding period of the previous year, totaling NIS 38 million, most of the increase stemming from the devaluation of the dollar exchange rate.

Fundtech - Income for the quarter increased by 31% from NIS 42 million for the corresponding quarter of the previous year to NIS 55 million for the current quarter. An increase in operating costs led to a loss for the quarter of NIS 3 million, a loss similar to that incurred in the corresponding quarter of the previous year.

In general, the Group companies' costs for the quarter were affected by the economic recession, the security situation and the world-wide reduction in demand for technology products. The overall effect of the factors outlined above is partly offset by reorganization and efficiency measures taken by a significant number of Group companies.

- C. We set out below selected data from the financial statements of the principal investee companies (in millions of shekels - rounded):

	Sales (*)		Net Income (Loss)(**)	
	For the three months ended March 31		For the three months ended March 31	
	2001	2000	2001	2000
CEI	26	19	(318)	19
Mashav	375	375	21	24
Kitan	193	175	10	5
AIPM (***)	125	324	11	35
Barak	147	106	(38)	(45)
Polgat (****)	153	128	2	3
Fundtech	55	42	(3)	(3)

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

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

(***) The results for 2000 reflect the operations of Hogla-Kimberley, which ceased to be consolidated on March 31, 2000.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

D. Earnings per share

The loss per NIS 1 share for the reported period amounted to NIS 1.54, as compared to earnings of NIS 0.31 per share in the corresponding quarter of the previous year and a loss of NIS 0.63 per share for the whole of 2000.

3. *The financial position and sources of finance*

Assets reflected in the Group's consolidated balance sheet as of March 31, 2001 totaled NIS 6,998 million, as compared to NIS 7,456 million as of the end of the corresponding quarter in the previous year and NIS 7,021 million as of the end of 2000.

As of March 31, 2001, the Company's working capital deficiency reached NIS 1,053 million (NIS 1,181 million - consolidated), as compared to NIS 979 million as of December 31, 2000 (NIS 1,010 million - consolidated). As of March 31, 2001, internal sources of finance (which include shareholders and minority interests) totaled NIS 3,421 million (49% of the consolidated balance sheet total), as compared to NIS 3,692 million as of December 31, 2000 (53% of the consolidated balance sheet total).

4. *Principal changes in investments*

- A. In January 2001, CBI invested NIS 43 million in OralScan Laboratories Inc. ("OralScan"), in addition to NIS 2 million transferred at the end of 2000. The consideration for the investment was 9.6% of the capital of OralScan. OralScan is engaged in the development and marketing of diagnostic systems for cancerous diseases.
- B. In February 2001, CBI invested NIS 15 million in MTRE - Advanced Technologies Ltd. ("MTRE"), as part of a general investment of CBI in MTRE totaling \$7 million. The investment will provide CBI with 9.4% of the capital of MTRE. MTRE develops and markets a product which regulates the temperature of the human body.
- C. The Company is negotiating for the sale of 50% of its holdings in Mashav to an international strategic partner operating in the construction materials and cement sector.

In April 2001, the parties entered into an agreement for the extension and variation of a Heads of Agreement. The parties are seeking to complete the negotiations on the basis of the above agreements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

According to the Heads of Agreement, the strategic partner will purchase 25% of the Company's holdings in Mashav. In addition, the strategic partner will be granted a call option for the purchase of a further 25% of the Company's holdings in Mashav, such that, following exercise of the option, the Company and the strategic partner will have identical holdings in Mashav.

The parties have determined that the transaction shall be based on a company valuation of \$790 million, less the financial liabilities of Mashav. The parties have agreed that the exercise price of the option shall be determined by reference to the higher of, on the one hand, a company valuation of \$790 million, less the financial liabilities of Mashav, and, on the other hand, such an amount as shall be determined by multiplying the earnings of Neshet before taxes, depreciation and financing expenses, for the twelve months preceding the date of exercise of the option, by a factor of 6.8, and adding thereto the sum of \$80 million for additional assets, and deducting therefrom the amount of the financial liabilities of Mashav.

The parties have discussed, in principle, the manner in which Mashav shall be jointly managed.

The Company has granted the purchaser an exclusive right to conduct a due diligence examination of Mashav.

There is no certainty that any transaction will be completed, and no agreement has been entered into by the parties requiring implementation of the transaction. In addition, the completion of any transaction will be subject to, inter alia, the approvals of the appropriate institutions of the parties and such other approvals as are required by law.

5. *Event subsequent to March 31, 2001*

In May 2001, documents were signed relating to the establishment of the Infinity II Fund. The documents detail previous undertakings of the Company and CEI to invest \$25 million, in equal shares, towards the total Fund commitment of \$60 million. The initial capital mobilization stage is due to be completed during June 2001. As of the date of approval of these financial statements, only 15% of the commitment had been invested. If the Infinity II Fund should undertake an investment commitment of at least \$70 million, the commitments of the Company and CEI would rise by a further \$5 million each. The Company and CEI will participate in the management of the Fund.

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

6. *Analysis of exposure to market risks and the management thereof*

There are no changes to report

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

LEON RECANATI
Chairman of the Board

MEIR SHANNIE
General Manager

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In millions of shekels of March 2001

	March 31		December 31
	2001	2000	2000
	(Unaudited)		(Audited)
<u>Assets</u>			
Current assets	1,514	1,584	1,348
Long term deposits, loans and receivables	76	97	83
Investments	2,735	3,007	2,912
Fixed assets, other assets and deferred expenses	<u>2,673</u>	<u>2,768</u>	<u>2,678</u>
	<u>6,998</u>	<u>7,456</u>	<u>7,021</u>
<u>Liabilities and Shareholders' Equity</u>			
Current liabilities	2,695	2,644	2,358
Long-term liabilities	882	769	971
Minority interests	597	912	704
Shareholders' equity	<u>2,824</u>	<u>3,131</u>	<u>2,988</u>
	<u>6,998</u>	<u>7,456</u>	<u>7,021</u>

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONDENSED DATA FROM THE CONSOLIDATED BALANCE SHEETS

In millions of shekels of September 1998

	For the three months ended March 31		For the year ended December 31
	2001	2000	2000
	(Unaudited)		(Audited)
Revenues	439	805	2,920
Costs and expenses	760	726	3,040
Income (loss) before taxes	(321)	79	(120)
Taxes on income	25	18	96
Income (loss) after taxes	(346)	61	(216)
Minority interest in losses (earnings) of subsidiaries, net	130	(17)	129
Net income (loss)	(216)	44	(87)
Earnings (loss) per NIS 1par value of share capital (in NIS)	(1.54)	0.31	(0.62)