

Clal Industries and Investments Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Period January-March 2004

1. **Company Description**

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

The Company is principally engaged in the establishment, acquisition, development and upgrading of companies in various industries. The Company strives to be involved in the management and formulation of the strategy in its investee companies, primarily when the Company possesses significant holdings in these companies. The Company has access to a variety of business opportunities, being constantly alert for investments with a suitable potential return, in those sectors where it is experienced and knowledgeable. In parallel, the Company strives to enhance and maximize the value of its existing investments, with a view to realizing those investments at the appropriate time.

The CII group of companies is actively engaged in a variety of sectors, including primarily: Cement, high technology and electronics, venture capital, paper and cardboard, textile, biotechnology, transportation, logistics and communications.

The Company operates according to basic principles that were approved in the past by the Board of Directors, calling for long-term business deployment. The basic principles include focusing on a limited number of material holdings possessing growth potential, in whose upgrading the Company can exert a significant influence, an emphasis on the development of management resources, focus on investments in rapid growth sectors, while providing support and encouraging long-term strategic processes in the investee companies. These measures and processes are constantly being evaluated and adapted. The Company consequently adapts its operational profile while adopting advanced management and business tools.

As a result of the adoption of the basic principles, the Company's investments were classified into four groups: Core holdings, venture capital, biotechnology and other real holdings.

The Company's operations are performed through subsidiaries (companies in which the Group holds 50% or more of the rights, either directly or indirectly), through associated companies (companies in which the Group exercises significant influence and which are accounted for by the equity method), and through other companies wherein the Company does not exercise significant influence (the investment in which is reflected in the financial statements on a cost basis).

To a great extent, the Company's financial results are influenced by profits from the realization of investments and by write-offs. The financial results may therefore fluctuate significantly over various reporting periods.

The Company views contributions to the community as a central tier in its business vision.

2. Results of Operations¹

- A. The Company's net income during the reported period amounted to NIS 168 million, as compared with a loss of NIS 83 million last year and a loss of NIS 129 million for all of 2003.

The quarterly net income includes positive non-recurring items in the net sum of NIS 178 million. These items consist primarily of the sale of the Company's holdings in Ormat shares (NIS 113 million), the completion of the sale of the SDP operations by Scitex (NIS 57 million) and the recording of a tax benefit on account of the realization of investments totaling NIS 15 million, that were partially offset by write-downs of NIS 15 million for impairment of investments (primarily in the Company's investment in the biotechnology companies). Negative non-recurring items totaling NIS 30 million were included in the corresponding period last year.

The decrease in the current loss (before non-recurring items) for the period, as compared with the preceding year, originates from the improved results of most of the core companies (primarily Neshor and Kitan), coupled with the lower losses of the venture capital funds.

The loss per NIS 1 par value of shares in the period amounted to NIS 1.07, as compared with a loss of NIS 0.53 in the corresponding period last year and a loss of NIS 0.82 for all of 2003.

¹According to Israeli financial standards, the adjustment of financial statements was discontinued starting January 1st 2004. The comparison figures for preceding periods are presented adjusted to the NIS of December 2003. The rules were also modified regarding the inclusion of the financial statements and results of operation of investee companies whose operating currency differs from the operating currency of the Company. (See also Note 2b to the Financial Statements).

The following is an analysis of the financial results (in NIS millions):

	For the three months ended March 31, 2004			For the three months ended March 31, 2003		
	Current	Non- recurring	Total	Current	Non- recurring	Total
Core holdings	18	194	212	(22)	(17)	(39)
Venture capital	(7)	(2)	(9)	(15)	(7)	(22)
Biotechnology	(12)	(13)	(25)	(15)	(6)	(21)
Other real holdings	3	(1)	2	6	-	6
Headquarters	(2)	-	(2)	(1)	-	(1)
Financing	(10)	-	(10)	(6)	-	(6)
Net Income (loss)	<u>(10)</u>	<u>178</u>	<u>168</u>	<u>(53)</u>	<u>(30)</u>	<u>(83)</u>

B. Data of Principal Investee Companies²

The following are data from the financial statements of the principal investee companies. The data are presented according to the operating currency of each company (in millions):

	<u>Sales</u>		<u>Net Income (loss)</u> ³	
	For the three months ended March 31		For the three months ended March 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Companies whose financial statements are in NIS:				
Mashav	347	298	28	(18)
Kitan	209	196	6	(3)
AIPM	119	118	17	13
Barak	193	161	(89)	19
Companies whose financial statements are in US dollars:				
ECI ⁴	\$111	\$113	(\$1)	(\$8)
Scitex	\$29	\$23	\$50	(\$7)
Polgat	\$46	\$38	\$0.9	\$0.2
Fundtech	\$13	\$11	\$0.3	(\$0.6)

²The review of ECI, Scitex and Fundtech is based on financial statements prepared in accordance with accounting principles generally accepted in the United States.

³Net income (loss) includes non-recurring items.

⁴The comparison figures were adjusted in order to reflect discontinued operations.

C. Review of Operations of Principal Companies³

Nesher – An increase was recorded primarily in revenues from the sale of cement (20% during the reported period, as compared with the corresponding period last year, primarily as a result of the growth in the sold quantities. Most of the growth in sales was recorded in the Palestinian market, that grew significantly in relation to the corresponding quarter last year, thanks to the relative improvement in the security situation. The quarterly income amounted to NIS 20 million, as compared with a current loss of NIS 2 million in the corresponding quarter last year (the loss last year amounted to NIS 19 million and included a non-recurring expenditure on account of efficiency measures in the sum of NIS 17 million). The transition to a current profit for the quarter, as compared with the corresponding quarter last year, originated primarily from the growth in the sales turnover, coupled with lower manufacturing costs, thanks to the efficiency measures that were initiated in 2003.

ECI⁶ – The gross profit for the period amounted to \$40 million (gross margin = 36%), as compared with \$46 million (gross margin = 40%) in the corresponding quarter last year. Excluding the ECTel results, the gross profit amounted to \$40.5 million, similar to last year. The operating loss for the quarter (before inclusion of the ECTel results) amounted to \$4 million, as compared with an operating loss (before inclusion of the ECTel results) of \$2 million in the corresponding quarter last year. The net loss for the quarter (before inclusion of the ECTel results) amounted to \$3 million, as compared with a loss of \$6 million (before inclusion of the ECTel results) in the corresponding quarter last year.

On May 10th 2004, ECI distributed to its shareholders most of its holdings in the ECTel share capital. Subsequent to the said distribution, the company holds approximately 6% of the ECTel share capital (as at the date of distribution, the market value of the received shares was NIS 16 million). The company undertook not to sell the said shares for a period of one year from the distribution date. Starting with the distribution date, ECI will not consolidate the ECTel financial statements.

Scitex⁶ – The quarterly sales amounted to \$29 million, as compared with \$23 million in the corresponding quarter last year (up 27%).

³ The review of ECI, Scitex and Fundtech is based on financial statements prepared in accordance with accounting principles generally accepted in the United States.

⁶ The comparison figures were adjusted in order to reflect discontinued operations.

The operating loss for the quarter amounted to \$0.5 million, as compared with an operating loss of \$6 million in the corresponding quarter last year. The decrease in the operating loss originated from the growth in sales and the improvement in the gross margin. The net income for the quarter amounted to \$50 million, as compared with a loss of \$7 million in the corresponding quarter last year. The quarterly net income includes a positive non-recurring item amounting to \$52 million, originating from the sale of all the operations of Scitex Digital Printing, an American company wholly-owned by Scitex, in return for \$262 million in cash, as compared with negative non-recurring items of \$3 million in the corresponding quarter last year.

In January 2004, Scitex announced that it intends to distribute a sum of \$118 million to its shareholders, of which \$86 million will be in cash, while the remaining \$32 million are to be distributed by way of an independent acquisition of its own shares, through a special tender offer, pursuant to the Companies Law. The independent acquisition is subject to meeting various conditions. On May 14th 2004, Scitex published a detailed tender offer for the acquisition of up to 5.6 million of its own shares, in return for a sum that may reach \$32 million in the event of full subscription. Together with Discount Investments Ltd. ("DIC") – a shareholder – the Company holds 44% of the voting rights in Scitex. The Company and DIC have notified Scitex that they intend – subject to market conditions – to participate in the tender offer with 0.26 million shares that they hold (cumulatively). In the event that the said tender offer is completed, the total holdings (together with DIC) may reach a rate between 47% and 50.6% of the voting rights. The tender offer is contingent upon the participation regarding Scitex shares that represent at least 7.5% of the share capital of Scitex at the publication date of the tender.

AIPM – The operating income for the quarter amounted to NIS 13.5 million, as compared with NIS 13 million in the corresponding quarter last year. An increase in AIPM's share in the earnings of associated companies contributed to the increase in the quarterly net income from NIS 13 million last year to NIS 17 million in the current quarter. The improved net income is primarily attributed to an improvement in the operating income of associated company Hogla-Kimberly Israel, thanks to improved efficiency in logistics. Hogla-Kimberly launched Kotex feminine hygiene products in the current quarter, while raising public awareness toward the brand through a widespread advertising campaign.

Kitan – The sales in the current quarter amounted to NIS 209 million, as compared with sales of NIS 196 million in the corresponding quarter last year. The operating income amounted to NIS 9 million for the quarter, as compared with an operating loss of NIS 2.5 million in the corresponding quarter last year. The improved operating income is attributed to the growth in sales and the improvement in the gross margin of the retail operations, that was slightly offset by the eroded gross profit on industrial operations.

The net income for the quarter amounted to NIS 6 million, as compared with a loss of NIS 3 million in the corresponding quarter last year. The transition to a profit originated from an increase in operating income, coupled with lower financial expenses. The increase in sales originated partially from the timing of the Passover holiday that occurred in early April this year, coupled with the state of the war in Iraq in the corresponding quarter last year.

Polgat – The sales during the reported period amounted to \$46 million, as compared with \$38 million last year. The growth in sales originated from Bagir (that operates in the men’s formal fashion sector). The quarterly gross profit amounted to \$11 million (gross profit margin = 23%), as compared with \$8.5 million (gross profit margin = 22%) in the corresponding quarter last year. The increase in gross profit originated from the growth in sales and the improved gross margin at Bagir, that were partially offset by the eroded gross profit at Guney Polgat (“GP”). The net income for the reported period amounted to \$0.9 million, as compared with net income of \$0.2 million in the corresponding quarter last year. The growth in net income originated primarily from the improved gross profit of Bagir, that was partially offset by the increase in selling and marketing expenses and the rise in salary expenses, as a result of the revaluation of the NIS and the Turkish lira against the US dollar.

As part of Bagir’s manufacturing strategy, the company signed a joint venture agreement with a Chinese company, for the establishment of a company in China. Furthermore, Bagir continued to reduce the number of employees at its Kiryat-Gat plant.

GP began implementing a work plan in 2003, with the intention of focusing the GP operations and rendering them more efficient, in view of the continuing losses at GP. The partners in GP are examining various alternatives for the reorganization of the group. There is no certainty that any restructuring will take place and no committing agreement has been signed between the parties. In the interim period until the launch of a reorganization process, if such a process is indeed launched, the GP management will not carry out any unusual activity and will conduct its current operations under the control of the GP Board of Directors.

Barak⁷ – The quarterly gross profit amounted to NIS 53 million (gross margin = 27%), as compared with gross profit of NIS 55 million (gross margin = 34%) in the corresponding quarter last year. A change in the sales mix during the quarter, thanks to an increase in the sale of capacity, resulted in a lower gross margin as compared with the corresponding quarter last year. The lower gross profit, along with the increase in selling and marketing expenses, resulted in a decrease in the operating income in the current quarter, that amounted to NIS 19 million, down from NIS 24 million in the corresponding quarter last year.

⁷In accordance with generally-accepted accounting principles, the company provided for NIS 12 million on account of its investments in Barak (the provision was equal to NIS 11 million at Dec-31-03), in consideration of Barak’s equity deficit and the guarantee provided by a subsidiary as part of the terms of the license received by Barak.

The current loss for the quarter (before a NIS 68 million provision for impairment made by Barak on account of undersea communication lines) amounted to NIS 21 million, as compared with current profit of NIS 19 million in the corresponding quarter last year. The transition to a current loss in the present quarter is attributed to an increase of NIS 35 million in financial expenses.

Fundtech – The net income for the reported period amounted to \$0.3 million, as compared with a loss of \$0.6 million in the corresponding period last year. The improvement in the quarterly profit originated primarily from a NIS 2 million increase in sales (up 17%) that was partially offset by growth in operating expenses (\$1 million), as compared with the corresponding quarter last year. Fundtech increased the base of its ongoing revenues during the quarter, while also expanding its cash and its investments in marketable securities by \$8 million, to a total of \$54 million.■

Generally speaking, the results of Group companies during the reported period were affected by the growth in demand in the local market, thanks to a relative calm in the security situation as compared with the corresponding quarter; the timing of the Passover holiday that occurred in early April this year, as well as the increase in the purchasing of equity equipment overseas, primarily on the part of hi-tech companies, that contributed to the growth in the volumes of sales of most group companies. This improvement, along with the positive impact of the efficiency measures being implemented by most of the companies in the Group, have resulted in improved results. Moreover, a recovery in the capital markets in Israel and worldwide has lately been felt, enabling the raising of capital at the group companies, along with the realization of investments.

The continued improvement in the results of the Group companies is dependent – to a considerable degree – upon the situation in the local and international markets, whereas these in turn, are dependent upon the impact of security-related events in Israel and overseas.

3. **The Financial Situation and Sources of Finance**

The working capital in the consolidated balance sheets amounts to NIS 112 million. The short-term liquid assets in the consolidated balance sheets, as at the balance sheet date, amount to NIS 727 million and are included under the items short-term investments, cash and cash equivalents. The quick ratio in the consolidated balance sheets is equal to 0.69 (0.67 as at Dec-31-03). The principal cash sources originated from the realization of investments in the sum of NIS 260 million, the issuing of NIS 112 million in debentures and the receipt of NIS 42 million in long-term loans. The cash sources were used primarily for the repayment of NIS 79 million in short-term loans, the repayment of NIS 52 million in long-term loans and investments in short-term deposits in the sum of NIS 60 million.

As at March 31, 2004, the Company's shareholders' equity totaled NIS 1,938 million, as compared with NIS 2,008 million at March 31, 2003. The NIS 70 decrease in equity originated primarily from a declared dividend of NIS 270 million, net of NIS 168 million in company earnings for the period. The minority interests amounted to NIS 310 million (NIS 95 million at Dec-31-03). On the sources side, the company's shareholders' equity fell (3%) while the minority interests rose (226%), primarily as a result of the transition to full consolidation of Mashav, that was previously proportionately consolidated (see also Section 4.1, below) – that together financed 38% of the company's assets.

The Group's external long-term sources of finance totaled NIS 1,532 million at the end of the quarter (NIS 1,335 million as at Dec-31-03), approximately 18% of which are scheduled for repayment within the coming year.

The net outstanding liabilities of the Company and the wholly-owned subsidiaries as at March 31, 2004 amounted to NIS 990 million (NIS 930 million as at Dec-31-2003).

4. **Major Changes in Investments and in Investee Companies**

4.1 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"). In the course of the quarter, the company and CRH continued to negotiate for the sale of 25% of the Mashav shares. It was agreed that during the negotiations, the rights of the parties would be maintained, according to the arrangements that were in place during the option period. At the end of March 2004, the parties agreed that the rights for joint management that existed during the option period will not be extended. Subsequent to the date of the report, the Company and CRH agreed to discontinue their contact for the sale of the additional 25% of Mashav shares.

Accordingly, during the reported period, the Company included – by proportionate consolidation (at a rate of 75%) – the profit and loss of Mashav. Starting March 31, 2004, Mashav's assets and liabilities are fully consolidated in the Company's financial statements. The addition to the consolidated assets as at March 31, 2004 is NIS 463 million.

4.2 In January 2004, the company sold its entire holdings in Ormat shares in return for NIS 259 million. As a result of this sale, the company recorded after-tax earnings of NIS 113 million. In April 2004, the Company sold its holdings in convertible debentures and options for Ormat shares, in return for NIS 43 million. Following the sale, the Company will record after-tax profits of NIS 15 million in the second quarter of 2004.

Following the said sale, the Company recorded a tax benefit of NIS 8.5 million.

4.3 In February 2004, the Company signed an agreement for the sale of all its holdings in Negevtech, in return for an immediate sum of \$14 million. Under certain conditions, derived from the cost of acquisition of additional Negevtech shares by the buyers, the Company may receive additional consideration. The transaction was finalized in May and in consideration of the immediate proceeds only, the Company is expected to record after-tax gains of NIS 31 million in the second quarter of 2004.

4.4 In May 2004, the Company signed an agreement for the sale of half its holdings in PowerDsine. In return for the sale, the Company received NIS 48 million. Following the transaction, the Company is expected to record after-tax profits of approximately NIS 13 million in the second quarter of 2004.

Following the said sale, the Company recorded a tax benefit of NIS 6 million.

4.5 The Company made the following investments – both directly and indirectly (through wholly-owned subsidiaries) – in additional companies during the reported period, (in millions of shekels):

	Three months ended March 31 2004
Core holdings	-
Venture capital	6
Biotechnology	3
Other real holdings	-
Total	<u>9</u>

4.6 During the period between March 31, 2004 and until the date the financial statements were approved, the Company invested NIS 10 million – directly and indirectly – primarily in venture capital.

5. **Qualitative Report Regarding the Exposure to Market Risks and the Management Thereof**

The following report refers to the Company and those of its wholly-owned subsidiaries, whose exposure to market risks is managed by the Company (hereinafter: “**The Corporation**”). Regarding newly-consolidated companies, see Section 5.2, below:

No material changes were recorded during the reported period in terms of the Company's exposure to market risks and the management thereof (pursuant to the instructions of the Securities Authority), as regards the Company's report in this matter, dated March 20, 2003.

5.1 **Report of Linkage Bases - Consolidated**

<u>As at March 31, 2004</u>	CPI-linked	Linked to the US\$	Linked to other foreign currency	Unlinked	Non-monetary balances	Total
Current Assets	81	142	126	939	815	2,103
Non-current assets	15	56	-	-	3,815	3,886
Current Liabilities	(303)	(259)	(168)	(1246)	(15)	(1,991)
Non-current liabilities	(1,145)	(28)	(12)	(71)	(804)	(2,060)
Net balance sheet amounts	<u>(1,352)</u>	<u>(89)</u>	<u>(54)</u>	<u>(378)</u>	<u>3,811</u>	<u>1,938</u>

5.2 **Newly-Consolidated Companies**

No material changes were recorded during the reported period at the companies Neshet, Polgat, Kitan and Taavura in terms of the exposure to market risks and the management thereof (pursuant to the instructions of the Securities Authority). In relation to the report on this matter dated March 20, 2003.

5.3 **Positions in Derivatives**

Highly Material Changes During the Reported Period as Compared with the Annual Report

During the reported period, Taavura (a proportionately-consolidated subsidiary – 50%) conducted NIS/CPI forward transactions at a nominal sum of NIS 120 million per annum. These transactions were intended to hedge CPI-linked loans and are recognized for accounting purposes so that in the event that the CPI rises above 1%, Taavura will receive the difference, while if the opposite occurs, it will pay the difference. The fair value of these contracts as at the date of the report is smaller than NIS 1 million.

5.4 **Events Subsequent to the Balance Sheet Date**

No material events were recorded in respect of market risks subsequent to the balance sheet date.

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

Clal Industries and Investments Ltd.

Summarized Consolidated Interim Financial Statements

As at March 31, 2004
(Unaudited)

**Summarized Consolidated
Interim Financial Statements
As at March 31, 2004**

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Clal Industries and Investments Ltd.

Consolidated Balance Sheets

	March 31		December 31
	2004	2003	2003
	(Unaudited)		(Audited)
	NIS millions		
	Reported ⁽¹⁾	Adjusted ⁽²⁾	
<u>Current Assets</u>			
Cash and cash equivalents	510	147	250
Short-Term Investments	217	103	174
Accounts Receivable - Trade	510	418	451
Other Accounts Receivable	131	120	136
Inventories	735	697	613
	2,103	1,485	1,624
 <u>Long-Term Deposits, Loans and Receivables</u>			
	13	34	12
 <u>Investments</u>			
In associated companies	1,141	1,278	1,199
Other	473	474	445
	1,614	1,752	1,644
 <u>Fixed Assets</u>			
Cost	7,205	5,684	5,707
Less - accumulated depreciation	5,167	3,954	4,044
	2,038	1,730	1,663
 <u>Other Assets and Deferred Charges</u>			
	221	(*)226	224
	5,989	5,227	5,167

	March 31		December 31
	2004	2003	2003
	(Unaudited)		(Audited)
NIS millions			
	Reported ⁽¹⁾	Adjusted ⁽²⁾	
<u>Current Liabilities</u>			
Credit from Banks	929	864	808
Trade Payables	348	279	303
Other accounts payable	423	335	368
Dividend to pay	270	-	-
Other Current Liabilities	21	104	36
	<u>1,991</u>	<u>1,582</u>	<u>1,515</u>
<u>Long-Term Liabilities</u>			
Debentures	1,040	462	905
Loans	200	296	252
Deferred Taxes	311	(*)237	230
Accrued Post-Retirement/Post-Employment Benefits	167	107	133
Other liabilities	32	30	29
	<u>1,750</u>	<u>1,132</u>	<u>1,549</u>
<u>Minority Interests</u>	<u>310</u>	<u>109</u>	<u>95</u>
<u>Shareholders' Equity</u>	<u>1,938</u>	<u>2,404</u>	<u>2,008</u>
	<u><u>5,989</u></u>	<u><u>5,227</u></u>	<u><u>5,167</u></u>

(*) Reclassified.

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

Date of approval of the financial statements:
May 19, 2004

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Income

	For the three-month period ended March 31		For the year ended December 31
	2004	2003	2003
	(Unaudited)		(Audited)
	NIS millions		
	Reported ⁽¹⁾	Adjusted ⁽²⁾	
<u>Revenues, net</u>			
Sales and services	703	623	2,702
Group's equity in earnings (losses) of associated companies	46	(*) (29)	(12)
Other income	132	-	-
	<u>881</u>	<u>594</u>	<u>2,690</u>
<u>Costs and expenses</u>			
Cost of Sales and Services	504	467	1,908
Selling and Marketing Expenses	109	102	419
General & Administrative Expenses	47	44	196
Other expenses, net	-	(*) 39	163
Financial Expenses, net	18	18	117
	<u>678</u>	<u>670</u>	<u>2,803</u>
Income (loss) before taxes on income	203	(76)	(113)
Taxes on Income	32	-	10
Income (loss) after taxes on income	171	(76)	(123)
Minority interest in subsidiary earnings, net	3	7	6
Net Income (loss)	<u>168</u>	<u>(83)</u>	<u>(129)</u>
Net Income (Loss) per NIS 1 Par Value of Share Capital (In NIS)	<u>1.07</u>	<u>(0.53)</u>	<u>(0.82)</u>

(*) Reclassified.

⁽¹⁾ See Note 2.

⁽²⁾ Adjusted to the NIS of December 2003.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Statements of Changes in Shareholders' Equity

	Share Capital	Capital Reserves (*)	Retained Earnings		Total
			Dividend announced subsequent to balance sheet date	Undistributed retained earnings	
Reported NIS Millions ⁽¹⁾					
Unaudited					
					14
Balance as at January 1, 2004			270	-	
Issue of share capital		-	-		
Dividend declared, yet to be paid	-	-	(270)	-	(270)
Differences arising from financial statements of investee companies adjusted to foreign currency	-	32	-	-	32
				16	
Net Income	-	-	-	-	
				31	
Balance as at March 31, 2004			-		

	Share Capital	Capital Reserves (*)	Retained Earnings		Total
			Dividend announced subsequent to balance sheet date	Undistributed retained earnings	
Adjusted NIS Millions ⁽²⁾					
Balance as at January 1, 2003	1,257	403	-	847	2,507
Differences arising from financial statements of investee companies adjusted to foreign currency	-	(20)	-	-	(20)
Loss	-	-	-	(83)	(83)
Balance as at March 31, 2003	1,257	383	-	764	2,404

	Share Capital	Capital Reserves (*)	Retained Earnings		Share Capital
			Dividend announced subsequent to balance sheet date	Undistributed retained earnings	
Adjusted NIS Millions ⁽²⁾					

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Statements of Changes in Shareholders' Equity

Audited

Balance as at January 1, 2003	1,257	403	-	847	2,507
Differences arising from financial statements of investee companies adjusted to foreign currency	-	(64)	-	-	(64)
Dividend	-	-	-	(306)	(306)
Loss	-	-	-	(129)	(129)
Dividend announced subsequent to balance sheet date	-	-	270	(270)	-
Balance as at December 31, 2003	<u>1,257</u>	<u>339</u>	<u>270</u>	<u>142</u>	<u>2,008</u>

(*) Composition:

	<u>March 31</u>		<u>December 31</u>
	2004	2003	2003
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>NIS millions</u>		
	<u>Reported ⁽¹⁾</u>	<u>Adjusted ⁽²⁾</u>	
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
	<u>614</u>	<u>614</u>	<u>614</u>
Differences arising from financial statements of investee companies adjusted to foreign currency	<u>(243)</u>	<u>(231)</u>	<u>(275)</u>
	<u>371</u>	<u>383</u>	<u>339</u>

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.
Statements of Changes in Shareholders' Equity

* Sum smaller than NIS 1 million.

⁽¹⁾ See Note 2.

⁽²⁾ Adjusted to the NIS of December 2003.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2004	2003	2003
	(Unaudited)		(Audited)
	NIS millions		
	Reported ⁽¹⁾	Adjusted ⁽²⁾	
<u>Cash Flows from Operating Activities</u>			
Net Income (loss)	168	(83)	(129)
Adjustments required to reflect cash flows from operating activities (a)	(104)	111	459
Net cash provided by operating activities	64	28	330
<u>Cash Flows from Investing Activities</u>			
Acquisition of fixed and other assets	(18)	(16)	(72)
Acquisition of newly-consolidated subsidiaries (b)	12	-	6
Investments in associated and other companies	(15)	(38)	(99)
Decrease in marketable securities, net	-	3	3
Proceeds from realization of fixed assets	4	4	13
Proceeds from realization of investments	260	72	88
Proceeds from sale of company proportionately-consolidated in the past (c)	-	-	-
Decrease (increase) in short-term deposits and loans, net	(36)	30	(24)
Short-term investments in IDB Group companies, net	(24)	-	(28)
Increase in deposits and long-term loans	-	-	(8)
Collection of long-term loans and other receivables	24	4	40
Net cash provided by (used in) investing activities	207	59	(81)
<u>Cash Flows from Financing Activities</u>			
Receipt of loans and other long-term liabilities:			
Banks and others	42	34	99
Issue of debentures	112	-	440
Repayment of loans and other long-term liabilities:			
Banks and others	(52)	(89)	(352)
Companies in the IDB Group	(5)	(5)	(5)
Redemption of debentures	-	-	(10)
Short-term credit from banks, net	(79)	11	101
Increase (decrease) in other current liabilities, net	(31)	50	(10)
Dividend paid to minority interest in subsidiaries	-	-	(14)
Dividend distributed	-	-	(306)
Net cash provided by (used in) financing activities	(13)	1	(57)
 <u>Translation Differences in Respect of Cash Balances Held by Autonomous Investee Companies</u>			
	2	-	(1)
<u>Increase in Cash and Cash Equivalents</u>	260	88	191
<u>Cash and Cash Equivalents at Beginning of Period</u>	250	59	59
<u>Cash and Cash Equivalents at End of Period</u>	510	147	250

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

	For the three-month period ended March 31	For the year ended December 31
	2004	2003
	(Unaudited)	(Audited)
	NIS millions	
	Reported ⁽¹⁾	Adjusted ⁽²⁾
(a) <u>Adjustments required to reflect cash flows from operating activities</u>		
Revenues and expenditures not affecting cash flows:		
Minority interest in earnings (losses) of consolidated subsidiaries, net	3	7
Equity in losses (earnings) of associated companies, net (*)	(28)	43
Losses (gains) from realization of investments, net	(140)	1
Impairment of other investments and assets	12	17
Losses of partnerships	4	3
Depreciation and Amortization	42	44
Gain from realization of fixed and other assets, net	(1)	(1)
Deferred taxes, net	20	(12)
Increase (decrease) in accrued post-retirement/post-employment benefits	(3)	7
Erosion of assets and liabilities, net	(2)	(5)
Changes in asset and liability items:		
Decrease (increase) in receivables and prepayments	(1)	14
Decrease (increase) in inventories	(22)	(3)
Increase (decrease) in payables	12	(4)
	(104)	111
(*) Dividends received	18	14
(b) <u>Acquisition of newly-consolidated companies (including transition from proportionate to full consolidation):</u>		
Assets and liabilities of subsidiaries as at the date of acquisition:		
Deficit in working capital, net of cash	37	3
Investments in investee and other companies	(12)	8
Fixed assets, other assets and deferred charges	(398)	(13)
Long-Term Liabilities	174	7
Minority Interests	211	1
	12	6
(c) <u>Proceeds from sale of company proportionately-consolidated in the past</u>		
Assets and liabilities of subsidiaries as at the date of sale -		
Investments, fixed assets, other assets and deferred charges		2
Long-Term Liabilities		(1)
Capital gain on sale of investment		(1)
		-

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

For the three-month period ended March 31		For the year ended December 31
2004	2003	2003
(Unaudited)		(Audited)
NIS millions		
Reported ⁽¹⁾	Adjusted ⁽²⁾	

(d) Non-cash transactions

Dividend declared, yet to be paid	270		
Sale of fixed assets on credit	2	1	
Acquisition of fixed assets on credit	2	2	7
Transfer of inventories to fixed assets			2
Repayment of liability to invest in companies		12	

⁽¹⁾ See Note 2.

⁽²⁾ Adjusted to the NIS of December 2003.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 1: General

- A. These financial statements are formulated in a summarized format as at March 31, 2004 and for the three-month period then ended, in accordance with generally-accepted accounting principles pertaining to financial statements for interim periods. These financial statements should be perused within the context of the Company's annual financial statements as at December 31, 2003 and for the year then ended, including the accompanying notes.
- B. The Company is a subsidiary of IDB Development Corporation Ltd. The term "IDB Group company" in these financial statements refers to an investee company of the parent company, except companies in the Clal Industries and Investments Ltd. Group itself ("investee companies"). The term "Group companies" in these financial statements refers to the Company and its investee companies.

Note 2: Significant Accounting Policies

- A. The interim financial statements are formulated in accordance with generally-accepted accounting principles for the preparation of financial statements for interim periods, as stipulated in Accounting Standard No. 14 of the Israeli Accounting Standards Board. The significant accounting policies and calculation methods that were implemented in the formulation of the interim financial statements are identical to those that were implemented in the formulation of the last annual financial statements, except for the following.
- B. Discontinuation of the adjustment of financial statements and financial reporting in reported sums

In 2001, the Israel Accounting Standards Board issued Accounting Standard No. 12, "Discontinuation of Adjustment of Financial Statements". Pursuant to this standard (and its amendment in Accounting Standard No. 17), the adjustment of financial statements to inflation is to be discontinued as of January 1, 2004. The Company has implemented the directives of the standard and such adjustment was discontinued as of January 1, 2004.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 2: Significant Accounting Policies (Cont'd)

1. Point of Reference for the Formulation of Financial Statements

- (a) In the past, the Company formulated its financial statements on the basis of the historical cost convention, adjusted for changes in the general purchasing power of the Israeli currency, on the basis of changes in the Consumer Price Index (CPI). The said adjusted amounts, included in the financial statements as at December 31, 2003 (the transition date), served as the reference point for the nominal financial reporting as of January 1, 2004. Any supplements made during the period were included at their nominal value.
- (b) The amounts of non-monetary assets do not necessarily reflect the realization value or current economic value, but only the reported value of those assets.
- (c) The term "cost" in these financial statements signifies cost in the reported amount.
- (d) All the comparison figures for preceding periods are presented adjusted to the CPI of the Transition Date (CPI of December 2003).

2. Financial Statements in Reported Amounts

(a) Definitions

Adjusted Amount – An historical nominal amount, adjusted to the CPI of December 2003, in accordance with the directives of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported Sum – An amount adjusted to the Transition Date, with the addition of amounts in nominal values that were added subsequent to the Transition Date, net of sums deducted subsequent to the Transition Date. The deduction of sums subsequent to the Transition Date is made in nominal values, in amounts adjusted to the Transition Date or in a combination of nominal values and amounts adjusted to the Transition Date, as the case may be.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 2: Significant Accounting Policies (Cont'd)

(b) Balance Sheets

- 1) Non-monetary items are presented in Reported Sums.
- 2) Monetary items are presented in the balance sheets in nominal values as at the balance sheet date.
- 3) The equity value of investments in associated companies is determined on the basis of the financial statements in Reported Sums of these companies.

(c) Statement of Income

- 1) Revenues and expenditures originating from non-monetary items or from provisions included in the balance sheets, are derived from the changes between the Reported Sum in the opening balance and the Reported Sum in the closing balance.
- 2) The remaining components of the statement of income are presented in nominal values.
- 3) The Company's share in the operating results of associated companies is determined on the basis of the financial statements of these companies, in Reported Sums.

(d) Statements of Changes in Shareholders' Equity

Dividend declared during the reported period is presented in nominal values.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 2: Significant Accounting Policies (Cont'd)

- (e) The following are data pertaining to the Consumer Price Index and the exchange rate of the US dollar:

	Consumer Price Index <u>Points</u>	Exchange Rate of US\$ 1 <u>NIS</u>
<u>As at</u>		
March 31, 2004	106.1	4.528
March 31, 2004	109.0	4.687
December 31, 2003	106.2	4.379
<u>Rate of change during period</u>	<u>%</u>	<u>%</u>
Three months ended on:		
March 31, 2004	(0.1)	3.4
March 31, 2003	0.8	(1.1)
Year ended December 31, 2003	(1.9)	(7.6)

3. Financial statements of autonomous investee units adjusted to foreign currency

Accounting Standard No. 13, setting rules regarding the effects of changes in foreign exchange rates, entered into effect on January 1, 2004 (hereinafter: "Standard 13"). Standard 13 replaces the directives of Clarifications No. 8 and 9 to Opinion 36 of the Institute of CPAs in Israel, which become null and void upon the entering into effect of Accounting Standard 12, as described above.

Standard 13 establishes the accounting treatment for foreign currency transactions and for the translation of the financial statements of autonomous investee units (hereinafter: "The Units"), for the purpose of integrating them in the financial statements of the reporting corporation.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Pursuant to Standard 13, the monetary and non-monetary assets and liabilities of the units are translated according to the closing rate. The statement of income items and the statements of cash flows items of the Units are translated according to the exchange rate on the date of the transactions, or according to average exchange rates during the period, when these exchange rates are similar to the actual exchange rates. All the exchange rate differentials created are allocated as a separate item in the Company's shareholders' equity ("Differences arising from financial statements of certain investees adjusted to foreign currency"), until the realization of the investment.

Pursuant to Standard 13, goodwill originating from the acquisition of the units is treated as an asset of that same unit and is translated according to the closing rate and not according to the actual rate used in the transaction, as was the practice until December 31, 2003. Furthermore, statements of income items and statements of cash flows items are no longer translated according to the closing rate, but according to the described above, while non-monetary items, such as fixed assets, are no longer adjusted to changes in the Consumer Price Index overseas, prior to translation into NIS.

Note 3: Investments

A. Principal Changes During the Reported Period

- 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"). In the course of the quarter, the company and CRH continued to negotiate for the sale of 25% of the Mashav shares. It was agreed that during the negotiations, the rights of the parties would be maintained, according to the arrangements that were in place during the option period. At the end of March 2004, the parties agreed that the rights for joint management that existed during the option period will not be extended. Subsequent to the date of the report, the Company and CRH agreed to discontinue their contacts for the sale of the additional 25% of Mashav shares.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 3: Investments (Cont'd)

Accordingly, during the reported period, the Company included – by proportionate consolidation (at a rate of 75%) – the profit and loss of Mashav. Starting March 31, 2004, Mashav's assets and liabilities are fully consolidated in the Company's financial statements. The addition to the consolidated assets as at March 31, 2004 is NIS 463 million.

- In January 2004, the Company sold its entire holdings in the shares of Ormat Industries Ltd. (hereinafter: "Ormat") in a non-stock-exchange transaction, in return for NIS 259 million. The Company recorded after-tax gains of approximately NIS 113 million as a result of this sale.

Regarding the sale of Series G convertible debentures of Ormat and Series H options of Ormat – See Note 7A, below.

B. Investments in Listed Companies

Investment in shares, as presented in balance sheets as at March 31, 2004	Value on stock exchange as at	
	March 31, 2004	May 17, 2004
	NIS millions	

Associated Companies:

ECI Telecom Ltd.	309	411	325
American Israeli Paper Mills Ltd. Group	199	313	306
Scitex Corporation Ltd.	275	241	247
Fundtech Ltd.	110	172	166
Nova Measuring Instruments Ltd.	27	76	57
Maman - Cargo Terminals and Handling Ltd.	31	51	43
Beit Shemesh Engine Holdings (1997) Ltd.	17	15	20
Gold Bond Group Ltd.	9	12	12
Cargal Ltd.	30	19	29

Other companies:

Compugen Ltd.	23	90	83
Ormat Industries Ltd. (debentures & options)	22	38	(*)
Other	10	16	15

(*) The investment was sold in April 2004. See also Note 7, below.

Note 4: Attached financial statements of associated companies

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

The Company is attaching the financial statements of associated companies ECI Telecom LTD. (hereinafter: "ECI") and Scitex Corporation Ltd. (hereinafter: "Scitex"), to these financial statements. Following are the effects of the adjustment of the financial statements of the said companies, reported according to generally accepted accounting principles in the U.S., to generally accepted accounting principles in Israel.

	As at March 31				As at December 31	
	2004		2003		2003	
	ECI	Scitex	ECI	Scitex	ECI	Scitex
	Unaudited				Audited	
\$ thousands						
Shareholders' equity:						
As reported by the associated company	573,369	275,693	633,520	202,498	569,505	224,698
Net adjustments to generally accepted accounting principles in Israel	<u>113</u>	<u>(1,757)</u>	<u>1,426</u>	<u>10,663</u>	<u>631</u>	<u>(7,500)</u>
Adjusted amount	<u>573,482</u>	<u>273,396</u>	<u>634,946</u>	<u>213,161</u>	<u>570,136</u>	<u>217,198</u>
	For the three-month period ended March 31				For the year ended December 31, 2003	
	2004		2003		December 31, 2003	
	ECI	Scitex	ECI	Scitex	ECI	Scitex
	Unaudited				Audited	
	\$ thousands					
Net income (loss) for the period:						
As reported by the associated company	(1,226)	50,289	(7,806)	(6,752)	(71,040)	1,387
Net adjustments to generally accepted accounting principles in Israel	<u>2,794</u>	<u>5,744</u>	<u>(3,796)</u>	<u>(1,211)</u>	<u>(9,526)</u>	<u>(3,811)</u>
Adjusted amount	<u>1,568</u>	<u>56,033</u>	<u>(11,602)</u>	<u>(7,963)</u>	<u>(80,566)</u>	<u>(2,424)</u>

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 5: Dividend

In March 2004, the Company's Board of Directors decided to distribute a cash dividend in the sum of NIS 270 million, representing NIS 1.72 for every NIS 1 par value of shares. The dividend distribution was made on April 28, 2004.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

Note 6: Data Regarding Business Sectors

	For the three-month period ended March 31		For the year ended December 31
	2004	2003	2003
	(Unaudited)		(Audited)
	NIS millions		
	Reported ⁽¹⁾	Adjusted ⁽²⁾	
A. Sector revenues ⁽³⁾			
Cement	188	157	808
Textile	414	370	1,547
High-technology and electronics	60	(23)	12
Venture Capital Funds	-	-	-
Biotechnology	(10)	(13)	(36)
Real Estate	19	27	49
Others	78	76	310
	<u>749</u>	<u>594</u>	<u>2,690</u>
Other income, net	*132	-	-
Total in statements of income	<u><u>881</u></u>	<u><u>594</u></u>	<u><u>2,690</u></u>
* Primarily gains of NIS 140 million from the realization of holdings in Ormat shares, included under "Other" sector and the NIS 7 million impairment in the value of investments in biotechnology companies.			
B. Sector Results			
Cement	38	(22)	119
Textile	18	2	36
High-technology and electronics	45	(36)	(73)
Venture Capital Funds	(6)	(16)	(30)
Biotechnology	(25)	(22)	(93)
Real Estate	6	22	27
Others	(5)147	15	38
	<u>223</u>	<u>(57)</u>	<u>24</u>
Adjustments ⁽⁴⁾	(2)	(1)	(20)
Financial Expenses	(18)	(18)	(117)
	<u>(18)</u>	<u>(18)</u>	<u>(117)</u>
Income (loss) before taxes on income	<u><u>203</u></u>	<u><u>(76)</u></u>	<u><u>(113)</u></u>

⁽¹⁾ See Note 2.

⁽²⁾ Adjusted to the NIS of December 2003.

⁽³⁾ Including sector's share in losses of associated companies

⁽⁴⁾ Including other expenses, net, not allocated to sector

⁽⁵⁾ Regarding the sale of holdings in Ormat shares – See Note 3A.

Note 7: Events Subsequent to the Balance Sheet Date

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

- A. In April 2004, the Company sold its holdings in Series G convertible debentures and Series H options for Ormat shares, in return for NIS 43 million. Subsequent to the sale, the Company will record after-tax gains of NIS 15 million in the second quarter of 2004, on account of which a tax benefit in the amount of NIS 8.5 million was included in the current quarter.
- B. In May 2004, the Company and a partnership under its control, signed an agreement for the sale of half their holdings in PowerDsine Ltd., in return for NIS 48 million. As a result of this transaction, the Company recorded net income of NIS 13 million, that will be included in the Company's financial statements for the second quarter of 2004, for which a tax benefit of NIS 6 million was included in the current quarter.

In May 2004, ECI distributed to its shareholders most of its holdings in Subsequent to the share capital of ECTel Ltd. (hereinafter: "ECTel"). the said distribution, the company holds approximately 6% of the ECTel share capital (as at the date of distribution, the market value of the The company undertook not to sell received shares was NIS 16 million). the said shares for a period of one year from the distribution date.

In January 2004, Scitex announced that it intends to distribute a sum of \$118 million to its shareholders, of which \$86 million will be in cash, while the remaining \$32 million are to be distributed by way of an independent acquisition of its own shares, through a special tender offer. The independent acquisition is subject pursuant to the Companies Law. On May 14th 2004, Scitex published a to meeting various conditions. detailed tender offer for the acquisition of up to 5.6 million of its own shares, in return for a sum that may reach \$32 million in the event of full Together with Discount Investments Ltd. (hereinafter: subscription. "DIC") – a shareholder – the Company holds 44% of the voting rights in The Company and DIC have notified Scitex that they intend – Scitex. subject to market conditions – to participate in the tender offer with 0.26 million shares that they hold (cumulatively). In the event that the said tender offer is completed, the total holdings (together with DIC) may The tender reach a rate between 47% and 50.6% of the voting rights. offer is contingent upon the subscription regarding Scitex shares that represent at least 7.5% of the share capital of Scitex at the publication date of the tender.

In February 2004 the Company signed an agreement for the sale of its In return for the sale, the Company entire holdings in Negevtech. Under certain conditions, derived received a sum of NIS 14 million. from the cost of additional acquisitions of Negevtech shares by the buyers from the Negevtech shareholders (if any), during the 15 months beginning with the closing of the sale, the Company may potentially receive additional proceeds.

The accompanying notes to the financial statements constitute an integral part thereof.

Clal Industries and Investments Ltd.

Consolidated Statements of Cash Flows (Cont'd)

The transaction was finalized in May and in consideration of the immediate proceeds only, the Company is expected to record after-tax gains of NIS 31 million in the second quarter of 2004.

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The accompanying notes to the financial statements constitute an integral part thereof.