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Clal Industries & Investments Ltd.  
March 31, 2005

**IDB**  
IDB GROUP IDB קבוצת

Management Discussion and Analysis for the Period  
January - March 2005

Condensed Interim Consolidated Financial Statements

The English version of the 1st quarter of 2005 is a translation of part  
of the Hebrew version, and is made for convenience purposes only.  
Please note that the Hebrew version constitutes the binding version.

**CLAL INDUSTRIES AND INVESTMENTS LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD JANUARY – MARCH 2005**

**1. COMPANY DESCRIPTION**

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

This report reviews the principal changes in the Company’s activity in the period January – March 2005 (“the reporting period”). The report is prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, and under the assumption that the reader also has available the Management Discussion and Analysis and the consolidated financial statements as of December 31, 2004 (“the annual financial statements”).

The Company is engaged, directly and through its subsidiaries, 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 strives to enhance and maximize the value of its existing investments, with a view to realizing those investments in the appropriate circumstances. The Company has access to a variety of business opportunities, being constantly alert for investments with a suitable potential return, in those sectors in which the Company is experienced and knowledgeable.

The Clal Group companies are engaged in a variety of industries, including primarily: cement, high technology and electronics, textile, biotechnology, venture capital, communication and other industries.

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

The Company's principal goals are:

- Improvement of business performance in order to achieve maximum return on capital over time, with continuing economic evaluation of business alternatives and advantageous opportunities.
- In the coming years – completion of the process for redesigning the Company as an investment company which focuses on holdings in the following industries: basic manufacturing, high technology and biotechnology, logistics, consumer products and infrastructure.

In order to achieve these goals, the Company has formulated the following business strategy:

- Focus on a limited number of material holdings possessing stable growth potential, in respect of which the Company can exert a significant influence.
- Continuous evaluation of investment opportunities in leading companies, including in investees.
- Utilization of opportunities in relevant markets in order to realize investments.
- Continuous search for opportunities to increase investees value.
- Intensification of international operations, including through investees.
- Cultivation and strengthening ties with existing and potential strategic partners in Israel and worldwide.
- Management of the Company's headquarters as a dynamic entity that works in coordination with investees.
- Periodic outsourcing of management of certain activities, while exercising appropriate controls.
- Contribution and assistance to the community in Israel.

The Company's operating results are affected, in large measure, by gains from realization of investments, adjustments of the value of investments and by other non-recurring factors. Accordingly, extensive fluctuation may be evident in the financial results between different reporting periods.

## **2. RESULTS OF OPERATIONS**

### **a. Statements of operations:**

The Company's net income in the reporting period amounted to NIS 101 million, compared to NIS 168 million in the corresponding period of the previous year and NIS 320 million in all of 2004.

In the reporting period, there was an improvement in the contribution of the investees to current income, from NIS 7 million in the corresponding period of the previous year to NIS 123 million in the reporting period. The increase in current income is derived primarily from an exceptionally large sale transaction of real estate by KBA, that contributed a gain of NIS 78 million, and from an improvement in results of most of the principal companies (primarily ECI, Neshet and Kitan). After deduction of financial and corporate expenses, the current income for the reporting period amounted to NIS 112 million, compared to a current loss of NIS 5 million in the corresponding period of the previous year.

The loss in the reporting period was derived from realization of investments, adjustment of the value of investments and other non-recurring factors and amounted to NIS 11 million, compared to income of NIS 170 million in the corresponding period of the previous year.

Income from continuing operations of the Company in the reporting period amounted to NIS 104 million (before the cumulative effect of a change in accounting principles as of the beginning of the reporting period), compared to income from continuing operations of NIS 165 million in the corresponding period of the previous year.

As a result of the sale of the Company's holdings in Polgat, which constituted a significant holding, comparative amounts as of December 31, 2004 in the financial statements were reclassified in order to reflect the Company's results of continuing operations, and accordingly the analysis and the comparison of the results with the previous period are based on the reclassified amounts. Income in the corresponding period of the previous year from discontinued operations amounted to NIS 3 million.

As a result of the initial adoption of Accounting Standard No. 19, the statement of operations includes an expense of NIS 3 million in respect of the cumulative effect as of the beginning of the period of the change in accounting principles.

Earnings per NIS 1 par value of Ordinary shares in the reporting period amounted to NIS 0.64, compared to NIS 1.07 in the corresponding period of the previous year and NIS 2.04 in all of 2004. Earnings from continuing operations per NIS 1 par value of Ordinary shares in the reporting period amounted to NIS 0.66, compared to NIS 1.05 in the corresponding period of the previous year and NIS 2.01 for all of 2004.

**b. Analysis of income by business segments (NIS in millions):**

	<b>Three months ended March 31</b>					
	<b>2005</b>			<b>2004</b>		
	<b>Current</b>	<b>Other<sup>1</sup></b>	<b>Total</b>	<b>Current</b>	<b>Other<sup>1</sup></b>	<b>Total</b>
Business segments:						
Cement	22	-	22	14	4	18
Textiles	12	(3)	9	7	-	7
High technology and electronics	9	(4)	5	(11)	64	53
Venture capital funds	(2)	2	-	(1)	(6)	(7)
Biotechnology	(9)	(6)	(15)	(11)	(13)	(24)
Real estate	81	-	81	2	-	2
Other	10	-	10	7	121	128
	123	(11)	112	7	170	177
Financing and corporate	(11)	-	(11)	(12)	-	(12)
Income (loss) from continuing operations	<u>112</u>	<u>(11)</u>	<u>101</u>	<u>(5)</u>	<u>170</u>	<u>165</u>

<sup>1</sup> Includes results of realization of investments, updating of value of investments and non-recurring factors.

**Cement** – See analysis of the results of companies in the cement segment in section d below.

**Textiles** – See analysis of the results of Kitan in section d below.

**High technology and electronics** – The decrease in the contribution of this segment relative to the corresponding period of the previous year is due primarily to the realization of Scitex's investment in SDP in the corresponding period of the previous year. This decrease was off set by the improvement in the results of ECI and Scitex. See also the analysis of the results of ECI, Scitex and Fundtech in section d below.

**Venture capital funds** – The results of this segment are primarily affected by the adjustments of the values of investments recorded by venture capital funds on their investments and from the adjustments of the value of the Company's investments in the venture capital funds. The improved results of this segment in the reporting period compared to the corresponding period of the previous year is due primarily to the non-inclusion of adjustments of value in respect of venture capital funds sold by the Company.

**Biotechnology** – The results of companies in this segment are mainly affected by their investments in research and development. The improved results of this segment in the reporting period compared to the corresponding period of the previous year are due principally to the decrease in provision for impairment of these investments.

**Real estate** - The principal company in this segment is KBA whose operating results are generally characterized by fluctuation, resulting from the timing of sales of its real estate. The results in the reporting period include a gain in the amount of NIS 78 million from sale of real estate. See section 3.1 below.

**Other** – The decrease in results compared to the corresponding period of the previous year is due principally to the results of realization of holdings in Ormat that were included in the corresponding period of the previous year.

**c. Data of principal investees <sup>2</sup> and their contribution to income:**

The following are data from the financial statements of principal investees. The data are presented in the functional currency of each company (in millions):

	<u>Sales</u>		<u>Net income (loss)</u>	
	<u>Three months ended March 31</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Companies that prepare financial statements in NIS:				
Mashav	259	341	34	28
Kitan	210	209	7	6
AIPM	122	119	14	17
Companies that prepare financial statements in \$:				
ECI <sup>3</sup>	\$ 145	\$ 108	\$ 1.0	\$ (1.2)
Scitex	\$ 37	\$ 29	\$ 1.8	\$ 50.3
Fundtech	\$ 17	\$ 13	\$ 0.5	\$ 0.3

**Contribution to income from principal investees (NIS millions):**

	<u>Three months ended</u>	
	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Mashav	25	20
Kitan	9	7
AIPM	5	6
ECI	13	-
Scitex	1	55
Fundtech	1	-

**d. Review of operations of principal companies during the reporting period**

**Nesher** – Revenues in the quarter totaled NIS 265 million, compared to NIS 250 million in the corresponding period of the previous year (an increase of 6%), due to an increase in export sales. Current income for the reporting period totaled NIS 29 million, compared to income of NIS 20 million in the corresponding period of the previous year. The increase in current income for the quarter compared to the corresponding quarter of the previous year arises from an increase in sales while concurrently maintaining the level of operating expenses despite the increase in energy prices, as a result of efficiency measures implemented and the complete renovation of one of the furnaces in the corresponding period of the previous year compared to a partial renovation in the reporting period.

**ECI** – Revenues in the quarter totaled \$ 145 million, compared to \$ 108 million in the corresponding quarter of the previous year, an increase of 35%. This is the seventh consecutive quarter in which ECI reports growth in revenues.

<sup>2</sup> Relates to financial statements published by ECI, Scitex and Fundtech on the basis of generally accepted accounting principles in the United States. The Company included the results of these companies according to generally accepted accounting principles in Israel.

<sup>3</sup> Comparative data were adjusted to reflect discontinued operations.

Revenues of the broadband access division in the quarter totaled \$ 63 million, compared to \$ 48 million in the corresponding quarter of the previous year (an increase of 31% in the division's revenues). Operating income of the section totaled \$ 8.5 million, compared to \$ 3.3 million in the corresponding quarter of the previous year.

Revenues of the optical networks division in the quarter totaled \$ 77 million, compared to \$ 52 million in the corresponding quarter of the previous year (an increase of 47% in the division's revenue). The division continued to improve its profitability and recorded operating income of \$ 4.9 million in the quarter, compared to a loss of \$ 3 million in the corresponding quarter of the previous year.

Net income for the quarter totaled \$ 10.4 million, compared to a net loss of \$ 1.2 million in the corresponding quarter of the previous year.

Subsequent to balance sheet date, in April 2005, the sale of ECI's receivable from GVT, a Brazilian communications company, in consideration for \$ 96 million, was completed. The gain on the sale, in the amount of \$10.4 million, will be recorded in the financial statements for the second quarter of 2005.

Subsequent to balance sheet date, in May 2005, ECI announced that it had signed an agreement to acquire Laurel Networks Inc in consideration for \$ 88 million. The closing of the transaction is subject to fulfillment of certain conditions. The products and technology of Laurel Networks Inc will join ECI's product lines in the broadband access, optical, edge router core channels and IP service segments, increasing the functions of these systems and providing comprehensive IP solutions for service providers.

**Scitex** – Revenues in the quarter totaled \$ 37 million, compared to \$ 29 million in the corresponding quarter of the previous year, an increase of 25%, all resulting from revenues of Scitex's principal subsidiary, Scitex Vision Ltd ("SVN"). The increase in revenues of SVN in the quarter compared to the corresponding quarter of the previous year arose from an increase in sales of jet injection printers and an increase in sales of ink. Operating income in the quarter totaled \$2.4 million, compared to a loss of \$0.5 million in the corresponding quarter of the previous year. The transition to operating income was derived principally from an increase in sales of ink and from an improvement in gross profit on these sales that was off set in part by an increase in selling and marketing expenses. Net income in the quarter totaled \$ 1.8 million, compared to a loss from continuing operations of \$ 1.4 million, and income from discontinued operations of \$ 51.7 million as a result of the sale of SDP, a wholly owned subsidiary of Scitex, in the corresponding quarter of the previous year.

In March 2005 Scitex announced that it entered into preliminary negotiations for the sale of its shares in SVN, constituting 75.5% of SVN's issued share capital (69.5% - fully diluted), based on an enterprise value of SVN (before cash and debts) in the range of \$ 230 million - \$ 250 million.

The proposed transaction is subject to finalization of the negotiations, due diligence procedures, and execution of definitive agreements. There is no insurance as to the negotiations resulting in a final transaction, or as to the terms, deal structure and selling price should the sale actually take place.

Regarding a compromise agreement that was signed and dismissal of claims submitted against Scitex and a subsidiary of the Company see section 9 below.

**AIPM** – Operating income for the quarter totaled NIS 14.5 million, compared to NIS 13.5 million for the corresponding quarter of the previous year, despite the increase in energy prices. The increase in operating income resulted primarily from an increase in sales. Net income for the quarter amounted to NIS 14 million, compared to NIS 17 million in the corresponding quarter of the previous year. The decrease in net income resulted primarily from a decrease of NIS 4 million in AIPM's equity in earnings of affiliates. The decrease in earnings of the affiliates resulted primarily from an increase in operating losses of Ovison, a Turkish affiliate, due to the sharp competitive conditions in the Turkish market.

**Kitan** – Sales in the quarter totaled NIS 210 million, compared to sales of NIS 209 million in the corresponding quarter of the previous year. Industrial sales increased by NIS 12 million compared to the corresponding quarter of the previous year, mainly as a result of an increase in sales to customers in the United States, which off set the decrease in retail sales in the quarter compared to the corresponding quarter of the previous year, due to the timing of the Passover holiday at the end of April in the current year. Operating income in the quarter totaled NIS 13 million, compared to NIS 8 million in the corresponding quarter of the previous year. The increase in operating income, was due principally to a decrease in selling expenses (NIS 2 million) and a decrease in general and administrative expenses (NIS 1 million). Net income for the quarter amounted to NIS 7 million, compared to NIS 6 million in the corresponding quarter of the previous year. The increase in net income compared to the corresponding quarter of the previous year resulted from an improvement in operating income that was off set mainly by an increase in income taxes (NIS 2 million).

**Fundtech** – Net income in the quarter amounted to \$ 0.5 million, compared to \$ 0.3 million in the corresponding quarter of the previous year. The improvement in profit was due principally to an increase in revenues of \$ 4.3 million (increase of 33%) off set by an increase in operating expenses (\$ 3.9 million), compared to the corresponding quarter of the previous year. The increase in sales in the quarter compared to the corresponding quarter of the previous year was derived from sales to existing customers and sales to new customers, due to a world-wide increasing trend to computerize financial transactions. In the quarter, Fundech had positive cash flows of \$ 7.5 million from operating activities, signed 32 new contracts and added five new customers.

In general, the results of most of the Group companies in Israel during the reporting period were affected by retention of the level of demand due to the relative calm in the security situation. The Group companies operating in the hi-tech sector were generally affected by the continued growth in the amount of acquisitions of capital equipment abroad, which contributed to the growth in the volume of sales in this segment. Retention of the relatively high level of activity, together with the positive impact of the efficiency measures being implemented by most of the companies in the Group, and notwithstanding the increase in energy prices compared to the corresponding quarter of the previous year and the timing of the Passover holiday in the current year compared to the previous year, resulted in an improvement in results and in net income in the quarter for all of the principal companies.

Moreover, the relative stability in capital markets in Israel and worldwide contributed to a positive environment for debt financing at reasonable prices, and an improvement in financial strength for some of the Group companies.

### 3. PRINCIPAL CHANGES IN INVESTMENTS AND IN INVESTEES

#### 3.1 Real estate segment

In January 2005, KBA, in which the Company holds 52.9%, signed an agreement for the sale of land in consideration for approximately NIS 248 million. As a result of the sale, KBA recorded a net gain of approximately NIS 148 million, of which the Company's share is approximately NIS 78 million.

#### 3.2 Venture capital fund segment

In January 2005 the Company invested NIS 22 million in FBR Infinity Ventures (Israel) Venture Capital Fund.

In February 2005, the Company completed the sale of its holdings in several venture capital funds for consideration of approximately NIS 46 million in cash and the release of the Company from commitments to additional investments in these funds of approximately \$ 12 million. During the reported period, no additional loss was recorded in excess of the loss recorded in 2004 in respect of this transaction.

#### 3.3 In the reporting period the Company invested, directly and indirectly (through wholly owned subsidiaries), in additional companies in the following segments (NIS in millions):

	Three months ended March 31, 2005
High technology and electronics	6
Biotechnology	3
Other	1
	<u>10</u>

Subsequent to balance sheet date, the Company invested NIS 14 million in additional companies.

#### 3.4 Events subsequent to balance sheet date

##### Other segment

In April 2005, the Company entered into an agreement for the off-market purchase of about 15% of the share capital of Beit Shemesh Engine Holdings (1997) Ltd. ("Beit Shemesh Engine") for a total consideration of approximately \$ 3 million. Upon closing, which is dependent upon the fulfillment of several conditions, it is expected that the Company's aggregate holdings in Beit Shemesh Engine will increase to about 36%.

For several months, negotiations have been held between Barak I.T.C. (1995) - International Telecommunications Company Ltd. ("Barak"), 44% - held by Clalcom Ltd. ("Clalcom"), a 71.5% held subsidiary of the Company, and an ad-hoc committee of the holders of Barak's debentures ("the committee") regarding the restructuring of Barak's equity and debt in view of Barak's anticipated difficulty in redeeming the debentures ("the negotiations"). In the context of the negotiations, Barak, the committee, Barak's shareholders (including Clalcom) and the Company ("the parties") agreed in principle on a plan for the restructuring of Barak's equity and debt ("the plan").

The plan stipulates that in exchange for the debt to the present holders of the debentures (including interest not yet paid in respect thereof and the deferred interest payments as above):

- (1) The holders of the debentures will receive \$ 40 million in cash, of which approximately \$ 7.65 million will be paid upon the signing of a memorandum of understandings between the parties and the balance of \$ 32.35 million will be paid upon the execution of the plan.
- (2) The debenture principal for the present holders of the debentures will amount to \$ 65 million and will bear annual interest of 10% (commencing from March 2005) to be paid in semi-annual installments. The principal will be paid in one installment at the end of five years, with a possibility for early redemption, subject to certain conditions.

In the context of the plan, the Company and/or Clalcom will provide a total of approximately \$ 32 million (to be used as payment to the holders of the debentures as above) and will jointly hold (directly and through Clalcom) in excess of 95% of Barak's share capital. The amount to be provided and the holding rate are subject to changes due to the fact that Matav Investments Ltd., which currently holds about 10% of Barak's share capital, is entitled to participate at a rate of about 18.5% in the financing to be provided by the Company and Clalcom under terms similar to those stipulated in the plan. The parties are working to sign a memorandum of understanding by the end of this month or close after it and later toward signing a binding agreement.

In a meeting held on May 23, 2005, the Board of Directors decided to approve, in principle, the Company's involvement in the above agreement. To the best of the Company's knowledge, as close as possible to the date subsequent to the signing of the agreement, Barak intends to submit the plan for the approval of the Court and of the holders of the debentures, in accordance with the provisions of Section 350 of the Companies Law. In addition to those approvals, the plan requires the approval of Barak's financing banks, various regulatory approvals (including the approval of the Ministry of Communication) and the approval of certain third parties. The Company estimates that the excess cost over book value that will arise upon the completion of the transaction, in respect of its investment in Barak, will amount to between NIS 360 million and NIS 400 million.

On May 23, 2005, Clalcom's Board of Directors approved the entering into several agreements with other companies, including companies controlled by an interested party (together - "the minority group"), with Telecom Italy and companies under its control with respect to their holdings in Mediterranean Nautilus Ltd. and Med-1 Underwater Cables Ltd., in each of which Clalcom holds 15%, as described in Note 9c3(b) to the Company's financial statements as of December 31, 2004 ("the Med transaction"). According to Clalcom's articles of association, Clalcom's involvement in the Med transaction requires the approval of its board of directors and of its shareholders.

A director of the Company, a controlling shareholder of the Company and a Co-CEO of the Company, who is also a controlling shareholder of the Company, have a personal interest in the approval of the Med transaction deriving from the control of the aforementioned director in additional companies in the minority group and from being related to the aforementioned controlling shareholders.

On May 23, 2005, the Company's Board of Directors, after receiving the approval of the Company's audit committee, decided to approve that the Company vote of the shareholders' meeting of Clalcom for the approval of Clalcom's entering into the Med transaction. The Board of Directors also determined that the Med transaction's terms relating to Clalcom do not differ significantly from the Med transaction's terms relating to the companies controlled by the director of the Company and relating to the other individuals in the minority group (and are in fact identical in their commercial terms), taking into account their relative share in the Med transaction.

Pursuant to Regulation 1(4) of the Companies Regulations (Relief Regarding Transactions with Interested Parties), 2000 ("the Relief Regulations"), the decision to approve the Company's vote at the shareholders' meeting of Clalcom does not require the approval of the Company's shareholders. Nevertheless, according to Regulation 1c of the Relief Regulations, in the event that one or more shareholders holding at least 1% of the Company's share capital announce no later than 7 days from the date in which the Company publishes an immediate report on the matter, that they object to the Relief, then according to the Relief Regulations, the approval of the Company's decision to vote at the shareholders' meeting of Clalcom will require the approval of the Company's shareholders pursuant to the majority required for the approval of an exceptional transaction in which a controlling shareholder has a personal interest. The Company will also have to publish a report pursuant to the Securities Regulations (Transactions Between a Corporation and a Controlling Party Therein), 2001.

#### High technology and electronics segment

In March 2005 Scitex announced that it entered into preliminary negotiations for the sale of its shares in SVN, constituting 75.5% of SVN's issued share capital (69.5% - fully diluted), based on an enterprise value of SVN (before cash and debts) in the range of \$ 230 million - \$ 250 million.

The proposed transaction is subject to finalization of the negotiations, due diligence procedures, and execution of definitive agreements. There is no insurance as to the negotiations resulting in a final transaction, or as to the terms, deal structure and selling price should the sale actually take place.

In the event that the negotiations result in a sale transaction as described above, it is expected to include also the Company's direct holdings in SVN constituting 7% of the issued share capital of SVN (6.5% - fully diluted) and the direct holdings of Infinity Israel Venture Capital Fund (in which Clal's investment constitutes 30% of the total investments of the limited partners), representing 2.8% of the issued share capital of SVN (2.0% - fully diluted).

#### **4. FINANCIAL POSITION AND SOURCES OF FINANCING**

Total assets in the consolidated balance sheet as of March 31, 2005 totaled NIS 5,383 million, compared to NIS 5,200 million as of December 31, 2004. The increase is derived primarily from the sale of real estate by KBA.

Consolidated working capital amounted to NIS 271 million. As of March 31, 2005 short-term liquid assets amounted to NIS 706 million, and are included in short-term investments and in cash and cash equivalents. The quick ratio of the consolidated Group companies is 0.82 (December 31, 2004 – 0.84). The principal sources of cash were from cash flows from operating activities in the amount of NIS 294 million. Cash was utilized principally for distribution of dividends in the amount of NIS 94 million and repayment of long-term loans in the amount of NIS 95 million.

Shareholders' equity as of March 31, 2005 and December 31, 2004 totaled NIS 1,864 million. The principal changes in shareholders' equity were net income of NIS 101 million off set by a dividend declared in the amount of NIS 108 million.

Minority interest as of March 31, 2005 totaled NIS 237 million (December 31, 2004 – NIS 250 million). Shareholders' equity and minority interests together constituted sources for financing 39% of the Group's assets (December 31, 2004 – 41%).

As of March 31, 2005 the Group's long-term financing sources totaled NIS 1,737 million (December 31, 2004 – NIS 1,824 million), 23% of which is repayable in the coming year. As of March 31, 2005 short-term financing sources totaled NIS 258 million (December 31, 2004 – NIS 212 million).

As of March 31, 2005 the balance of liabilities, net, of the Company and the principal wholly owned subsidiaries (mainly debentures) amounted to NIS 793 million (December 31, 2004 – NIS 864 million).

#### **5. DIVIDEND**

On April 17, 2005 the Company distributed a cash dividend in the amount of NIS 108 million, representing NIS 0.69 per each NIS 1 par value.

#### **6. QUALITATIVE REPORT REGARDING EXPOSURE TO AND MANAGEMENT OF MARKET RISKS**

The following report relates to the Company and to its wholly owned subsidiaries whose market risks are managed by the Company (the "Corporation"). Regarding subsidiaries see section 6.2 below.

There were no material changes in the reporting period regarding the Company's exposure to and management of market risks (as described in the Securities Authority directive) in relation to the Company's report on this subject dated March 23, 2005.

## 6.1 Consolidated report on linkage bases as of March 31, 2005 (NIS in millions):

	<u>Linked to the Israeli CPI</u>	<u>Linked to U.S. dollar</u>	<u>Linked to other foreign currencies</u>	<u>Unlinked</u>	<u>Non- monetary balances</u>	<u>Total</u>
Current assets	8	114	19	1,036	589	1,767
Non-current assets	67	49	9	4	3,488	3,616
Current liabilities	(594)	(63)	(41)	(792)	(6)	(1,496)
Non-current liabilities	<u>(1,278)</u>	<u>(12)</u>	<u>(5)</u>	<u>(39)</u>	<u>(690)</u>	<u>(2,023)</u>
Balance sheet, net	<u>(1,797)</u>	<u>88</u>	<u>(18)</u>	<u>209</u>	<u>3,381</u>	<u>1,864</u>

## 6.2 Subsidiaries

In the reporting period, there were no material changes in Neshet, Kitan and Taavura regarding exposure to and management of market risks (as described in the Securities Authority directive) in relation to the report on this subject dated March 23, 2005.

## 6.3 Positions in derivatives

There were no material changes in the reporting period in relation to the annual report.

## 6.4 Events subsequent to balance sheet date

There were no material events relating to the market risks of the corporation subsequent to balance sheet date.

## 7. SHARE CAPITAL

In the reporting period, 113,294 additional shares were issued upon the exercise of 193,298 options, and 137,149 options expired.

## 8. CONTINGENT LIABILITY

In 2003 and 2004, several lawsuits and demands were filed against Scitex Vision Ltd. (formerly: Aprion Digital Ltd.) ("SVN") and others, including directors of SVN and various of its shareholders, including the Company's wholly owned subsidiary ("the subsidiary") which holds about 7% of SVN, and Scitex which holds about 75% of SVN (collectively, "the defendants").

The lawsuit and demands were filed by one of the minority shareholders in SVN and they concern the manner in which the defendants performed several transactions of SVN, alleged damages that he incurred, and amounts due to him following these transactions, and they primarily address a transaction in the context of which SVN acquired from Scitex the entire issued share capital of a wholly owned subsidiary of Scitex at the time ("the Scitex subsidiary"), in consideration for the issuance of shares of SVN to Scitex.

In April 2005, a compromise agreement was signed between the minority shareholder and Scitex, the subsidiary and Discount Investments Ltd. (which is also among the defendants and which holds about 7% of SVN) pursuant to which the above lawsuit and demands are dismissed and the parties mutually waive any other claims and demands relating to SVN. Similarly, according to the compromise agreement Scitex, the subsidiary and Discount Investments Ltd. will purchase the minority shareholder's interest in SVN (about 1.9%) for a total immediate payment of \$ 1.6 million (the subsidiary's share is approximately \$ 126 thousand) and a contingent future payment, whose actual payment and amount are conditional upon that within two years Scitex, the subsidiary and Discount Investments Ltd. sell their holdings and/or part of their holdings in SVN for a consideration that is based on a higher value for SVN compared to the value for which the above immediate payment was based. The minority shareholder's interest in SVN shares to be purchased will be allocated between Scitex, the subsidiary and Discount Investments Ltd. proportionally to their current holdings in SVN.

## **9. ISSUANCE OF DEBENTURES**

In April 2005 a tender was closed for the private placement of debentures (Series L) in the amount of NIS 333 million (of which NIS 62 million is to interested parties) to be issued in May 2005. The debentures, principal and interest, will be linked to the Israeli CPI index of March 2005, will be repayable in five equal annual installments from January 2009 and will bear annual interest on the outstanding balance at a rate of 4.35%. The interest will be payable from January 2006 and will be paid in each of the years 2006 to 2013, inclusive.

The Company has undertaken to register the above debentures for trading ("list") on the Stock Exchange within 18 months from the date of their issuance. Should the debentures not be listed on the Stock Exchange by that date, the debentures holders will be entitled to demand their early repayment. For debentures in respect of which no written demand for early repayment is requested, the original terms of the debentures will remain in effect.

The above debentures were rated "AA" by Maalot, Israel Securities Rating Ltd.

On the date the financial statements were approved, the Board of Directors of the Company approved the publication of a prospectus in the context of which the Company will list the debentures (series L) that had been issued to private and institutional investors in May 2005, as described above, and will also list NIS 140 million par value of debentures, which will be issued to a wholly-owned subsidiary of the Company ("the subsidiary"). These debentures together with the debentures described above, represent one series (series L) for all purposes.

In addition, as part of the above prospectus, the Company intends to issue debentures (series M) to the public, of up to a total of NIS 70 million. The debentures will bear interest at a rate determined by a tender, but not less than 4.5% and not more than 5.1%. The debentures will be linked (principal and interest) to the Israeli CPI of April 2005 and will be repayable in five equal annual installments starting January 2013. The interest is payable in June of each of the years 2006 through 2017 (inclusive). The subsidiary has undertaken to buy 20% of the units offered in this issuance at an interest rate to be determined in the institutional tender.

In May 2005, a subsidiary issued, by private placement, non-marketable debentures in the amount of approximately NIS 300 million (of which NIS 22 million was issued to related parties). The debentures are linked to the Israeli CPI and bear interest at the rate of 4.2% per annum. The principal of the debentures is repayable in five equal annual installments from May 2009. As part of the issuance, the subsidiary has undertaken towards the investors to refrain from recording liens in favor of others.

The above debentures were rated "AA" by Maalot, Israel Securities Rating Ltd.

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

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**Nochi Dankner**  
Chairman of the Board of  
Directors

---

**Avi Fisher**  
Director and Co-CEO

---

**Zvika Livnat**  
Co-CEO

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**CLAL INDUSTRIES AND INVESTMENTS LTD.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2005**

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The Board of Directors of  
CLAL INDUSTRIES AND INVESTMENTS LTD.

**Re: Review of unaudited interim consolidated financial statements  
for the three months ended March 31, 2005**

At your request, we have reviewed the interim consolidated balance sheet of CLAL INDUSTRIES AND INVESTMENTS LTD. as of March 31, 2005, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with the reports of other accountants in respect of the review of interim financial statements of certain subsidiaries, whose assets constitute approximately 25% of total consolidated assets as of March 31, 2005, and whose revenues from sales and services constitute approximately 43% of total consolidated revenues from sales and services for the three months then ended. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain affiliates, the investment in which on the equity basis of accounting totaled NIS 1,000 million as of March 31, 2005, and the Company's equity in the earnings for the three months then ended totaled NIS 19 million.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review and the reports of other accountants referred to above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports) - 1970.

Tel-Aviv, Israel  
May 23, 2005

KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

CLAL INDUSTRIES AND INVESTMENTS LTD.

**CONSOLIDATED BALANCE SHEETS**

	March 31,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	571	452	378
Short-term investments	135	217	173
Trade receivables	437	396	420
Other receivables	89	108	102
Inventories	535	538	498
	1,767	1,711	1,571
<b>LONG-TERM DEPOSITS, LOANS AND RECEIVABLES</b>			
	70	13	71
<b>INVESTMENTS:</b>			
Affiliates	1,094	1,202	1,052
Other	427	412	477
	1,521	1,614	1,529
<b>FIXED ASSETS:</b>			
Cost	6,668	6,601	*) 6,616
Less - accumulated depreciation	4,862	4,741	*) 4,823
	1,806	1,860	1,793
<b>OTHER ASSETS AND DEFERRED CHARGES</b>			
	219	234	*) 236
<b>ASSETS ATTRIBUTABLE TO DISCONTINUED OPERATIONS</b>			
	-	559	-
	5,383	5,991	5,200

\*) Reclassified.

(1) Reclassified mainly due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks	369	831	380
Trade payables	247	233	235
Other payables	475	323	357
Dividend payable	108	270	-
Other current liabilities	297	20	303
	1,496	1,677	1,275
<b>LONG-TERM LIABILITIES:</b>			
Debentures	1,188	1,040	1,207
Loans	140	186	147
Deferred taxes	300	311	298
Accrued severance pay	148	152	149
Other liabilities	10	28	10
	1,786	1,717	1,811
<b>LIABILITIES ATTRIBUTABLE TO DISCONTINUED OPERATIONS</b>	-	418	-
<b>MINORITY INTEREST</b>	237	241	250
<b>SHAREHOLDERS' EQUITY</b>	1,864	1,938	1,864
	5,383	5,991	5,200

(1) Reclassified mainly due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

**CONSOLIDATED STATEMENTS OF INCOME**

	Three months ended		Year ended
	March 31,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions (except per share data)		
Revenues, net:			
Sales and services	833	498	2,385
Other income	-	135	284
Equity in net earnings of affiliates	18	43	39
	<u>851</u>	<u>676</u>	<u>2,708</u>
Costs and expenses:			
Cost of sales and services	424	346	1,596
Selling and marketing expenses	76	75	316
General and administrative expenses	46	38	178
Other expenses, net	2	-	-
Financial expenses, net	14	18	113
	<u>562</u>	<u>477</u>	<u>2,203</u>
Income before taxes on income	289	199	505
Taxes on income	104	32	131
Income from continuing operations after taxes on income	185	167	374
Minority interest	81	2	58
Income from continuing operations after minority interest	104	165	316
Income from discontinued operations, net	-	3	4
Income before cumulative effect of change in accounting principle	104	168	320
Cumulative effect as of the beginning of the period of change in accounting principle, net	(3)	-	-
Net income	<u>101</u>	<u>168</u>	<u>320</u>
Earnings per NIS 1 par value of Ordinary shares (in NIS):			
Income from continuing operations	0.66	1.05	2.01
Income from discontinued operations	-	0.02	0.03
Loss from cumulative effect as of the beginning of the period of change in accounting principle, net	(0.02)	-	-
	<u>0.64</u>	<u>1.07</u>	<u>2.04</u>

(1) Reclassified due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Capital reserves *)	Retained earnings		Total
			Dividend declared subsequent to balance sheet date	Undistributed retained earnings	
Reported NIS in millions					
<b>Unaudited</b>					
Balance as of January 1, 2005	1,257	395	108	104	1,864
Issuance of share capital	**) -	-	-	-	**) -
Foreign currency translation adjustments	-	7	-	-	7
Dividend declared	-	-	(108)	-	(108)
Net income	-	-	-	101	101
Balance as of March 31, 2005	<u>1,257</u>	<u>402</u>	<u>-</u>	<u>205</u>	<u>1,864</u>
<b>Unaudited</b>					
Balance as of January 1, 2004	1,257	339	270	142	2,008
Issuance of share capital	**) -	-	-	-	**) -
Foreign currency translation adjustments	-	32	-	-	32
Dividend declared	-	-	(270)	-	(270)
Net income	-	-	-	168	168
Balance as of March 31, 2004	<u>1,257</u>	<u>371</u>	<u>-</u>	<u>310</u>	<u>1,938</u>
<b>Audited</b>					
Balance as of January 1, 2004	1,257	339	270	142	2,008
Issuance of share capital	**) -	-	-	-	**) -
Foreign currency translation adjustments	-	11	-	-	11
Capital reserve from transaction with controlling shareholder	-	13	-	-	13
Reversal of write-down of investment in investee against capital reserves in respect of foreign currency translation adjustments	-	32	-	-	32
Dividend	-	-	(270)	(250)	(520)
Net income	-	-	-	320	320
Dividend declared subsequent to balance sheet date	-	-	108	(108)	-
Balance as of December 31, 2004	<u>1,257</u>	<u>395</u>	<u>108</u>	<u>104</u>	<u>1,864</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(\*) Composition:

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
Capital reserves:			
Share premium	574	574	574
Capitalized earnings	23	23	23
Expired stock options of investees	12	12	12
Capital reserve from transactions with controlling shareholder	18	5	18
	<u>627</u>	<u>614</u>	<u>627</u>
Foreign currency translation adjustments	(225)	(243)	(232)
	<u>402</u>	<u>371</u>	<u>395</u>

\*\*\*) Less than NIS 1 million.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	March 31,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions		
<u>Cash flows from operating activities:</u>			
Net income	101	168	320
Deduct - income from discontinued operations, net	-	(3)	(4)
Income from continuing operations	101	165	316
Adjustments to reconcile net income to net cash provided by continuing operations (a)	193	(117)	24
Net cash provided by continuing operating activities	294	48	340
Net cash provided by discontinued operating activities	-	16	36
Net cash provided by operating activities	294	64	376
<u>Cash flows from investing activities:</u>			
Purchase of fixed and other assets	(40)	(16)	(99)
Acquisition of newly consolidated subsidiaries (b)	(4)	12	10
Investments in affiliates and other companies	(31)	(15)	(196)
Cash distribution by affiliate	-	-	100
Decrease (increase) in marketable securities, net	54	-	(142)
Proceeds from disposal of fixed assets	6	3	28
Proceeds from disposal of investments	53	260	527
Sale of previously consolidated subsidiaries (c)	-	-	(1)
Decrease (increase) in short-term deposits, loans and investments, net	12	(14)	10
Short-term investments in IDB Group companies, net	(14)	(46)	68
Increase in deposits and long-term loans	-	-	(4)
Collection of other long-term loans and receivables	-	23	31
Net cash provided by continuing investing activities	36	207	332
Net cash provided by discontinued investing activities	-	-	120
Net cash provided by investing activities	36	207	452

(1) Reclassified due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	March 31,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions		
<u>Cash flows from financing activities:</u>			
Receipt of loans and other long-term liabilities:			
From banks and others	9	41	98
From issuance of debentures	-	112	540
Repayment of loans and other long-term liabilities:			
From banks and others	(75)	(47)	(175)
From companies in the IDB Group	(5)	(5)	(5)
Redemption of debentures	(15)	-	-
Short-term credit from banks, net	43	(75)	(484)
Increase (decrease) in other current liabilities, net	-	(30)	(30)
Issuance of shares by subsidiary to minority interest	-	-	1
Dividends paid by subsidiaries to minority interest	(94)	-	(45)
Dividends paid	-	-	(520)
Net cash used in continuing financing activities	(137)	(4)	(620)
Net cash used in discontinued financing activities	-	(9)	(25)
Net cash used in financing activities	(137)	(13)	(645)
Translation differences in respect of cash balances of discontinued operations	-	2	1
Increase in cash and cash equivalents	193	260	184
Deduct - increase in cash and cash equivalents from discontinued operations	-	(9)	(7)
Increase in cash and cash equivalents from continuing operations	193	251	177
Cash and cash equivalents at the beginning of the period	378	201	201
Cash and cash equivalents at the end of the period	571	452	378

(1) Reclassified due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	March 31,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions		
(a) <u>Adjustments to reconcile net income to net cash provided by continuing operating activities:</u>			
Income and expenses not involving operating cash flows:			
Minority interest	81	2	58
Equity in earnings of affiliates, net of dividends received *)	(1)	(24)	16
Gain on sale of investments, net	(1)	(140)	(282)
Impairment of investments and assets, net	12	12	22
Depreciation and amortization	42	36	161
Gain on sale of fixed and other assets, net	(3)	(1)	(15)
Deferred taxes, net	(2)	20	20
Decrease in accrued severance pay	(2)	(3)	(6)
Exchange rate differences on assets and liabilities, net	(6)	(2)	7
Changes in operating assets and liabilities:			
Increase in other receivables	(27)	(5)	(32)
Decrease (increase) in inventories	(24)	(8)	13
Increase (decrease) in other payables	124	(4)	62
	<u>193</u>	<u>(117)</u>	<u>24</u>
*) Dividends received	<u>17</u>	<u>19</u>	<u>55</u>

(1) Reclassified due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Year ended
	March 31,	(1) 2004	December 31,
	2005		2004
	Unaudited		Audited
	Reported NIS in millions		
(b) <u>Acquisition of newly consolidated subsidiaries</u> <u>(including change from proportionate</u> <u>consolidation to full consolidation):</u>			
Assets and liabilities of subsidiaries at date of acquisition:			
Working capital deficiency, excluding cash	6	32	30
Investments in investees and other companies	1	(12)	(14)
Fixed assets, other assets and deferred charges	(14)	(391)	(381)
Long-term liabilities	3	174	170
Minority interest	-	209	205
	<u>(4)</u>	<u>12</u>	<u>10</u>
(c) <u>Sale of previously consolidated subsidiaries:</u>			
Assets and liabilities of subsidiaries as of the date of sale:			
Working capital deficiency, excluding cash			(2)
Investments, fixed assets, other assets and deferred charges			2
Long-term liabilities			<u>(1)</u>
			<u>(1)</u>
(d) <u>Significant non-cash activities:</u>			
In-kind dividend from investee	<u>-</u>	<u>-</u>	<u>16</u>
Dividend receivable from investee	<u>-</u>	<u>-</u>	<u>9</u>
Dividend declared	<u>108</u>	<u>270</u>	<u>-</u>
Transfer of inventories to fixed assets	<u>2</u>	<u>-</u>	<u>5</u>
Investments in investees and other companies and purchase of properties on credit	<u>1</u>	<u>2</u>	<u>3</u>
Sale of properties for credit	<u>-</u>	<u>2</u>	<u>35</u>

(1) Reclassified due to discontinued operations, see Note 5.

The accompanying notes are an integral part of the interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

- a. These financial statements have been prepared in a condensed format as of March 31, 2005 and for the three months then ended. These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.
- b. The Company is a subsidiary of IDB Development Corporation Ltd. The term "IDB Group company" in these financial statements refers to an investee of the parent company, other than companies in the Clal Industries and Investments Ltd. Group ("investees"). The term "Group companies" in these financial statements refers to the Company and its investees.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements, except as described in b below.

- b. Initial adoption of Accounting Standard No. 19 with respect to taxes on income:

On January 1, 2005, the Company adopted Accounting Standard No. 19, "Taxes on Income" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for recognition, measurement, presentation and disclosure of taxes on income and deferred taxes in the financial statements. Pursuant to the Standard, the effect of the initial adoption of the Standard was recognized by recording the cumulative effect as of the beginning of the period in which the Standard is adopted.

The major change promulgated by the Standard in relation to the accounting principles which were previously in effect is the recognition of deferred taxes for temporary differences relating to land.

As a result of the initial adoption of the provisions of the Standard, the Company recorded a deferred tax liability in the amount of approximately NIS 3 million which was reported as loss and presented as a separate line item in the statement of income, "Cumulative effect as of the beginning of the period of change in accounting principle, net."

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- c. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar:

As of	Israeli CPI Points *)	Exchange rate of one U.S. dollar NIS
March 31, 2005	106.8	4.361
March 31, 2004	106.1	4.528
December 31, 2004	107.4	4.308
Change during the period	%	%
March 2005 (three months)	(0.6)	1.2
March 2004 (three months)	(0.1)	3.4
December 2004 (12 months)	1.2	(1.6)

\*) The index is on an average basis of 2000 = 100.

**NOTE 3:- INVESTMENTS**

- a. Principal changes during the reported period:

Venture capital fund segment:

In January 2005, the Company invested NIS 22 million in F.B.R. Infinity Ventures (Israel) Venture Capital Fund. The Company has commitments to make additional investments in this venture capital fund in the amount of \$ 12.5 million.

In February 2005, the Company completed the sale of its holdings in several venture capital funds for consideration of approximately NIS 46 million in cash and the release of the Company from commitments to additional investments in these funds of approximately \$ 12 million. During the reported period, no additional loss was recorded in excess of the loss recorded in 2004 in respect of this transaction.

Real estate segment:

In January 2005, a subsidiary in which the Company holds 52.9%, signed an agreement for the sale of land for approximately NIS 248 million. As a result of the sale, the subsidiary recorded a net gain of approximately NIS 148 million (of which the Company's share is approximately NIS 78 million).

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

b. Investments in listed companies:

	Carrying amount at March 31, 2005	Market value	
		March 31, 2005	May 22, 2005
Reported NIS in millions			
Affiliates:			
ECI Telecom Ltd.	330	477	564
American Israeli Paper Mills Ltd.	186	281	286
Scitex Corporation Ltd.	166	265	278
Fundtech Ltd.	115	232	244
Maman - Cargo Terminals and Handling Ltd.	27	41	42
Nova Measuring Instruments Ltd.	24	37	29
Beit Shemesh Engine Holdings (1997) Ltd.	19	19	20
Gold Bond Group Ltd.	10	22	23
Other companies:			
Compugen Ltd.	23	52	46
ECTel	14	17	18
Shopping.com Ltd.	8	14	11
Other companies	6	14	14

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- ATTACHED FINANCIAL STATEMENTS OF AFFILIATES

The attached financial statements of the affiliates, ECI Telecom Ltd. ("ECI") and Scitex Corporation Ltd. ("Scitex") are prepared in accordance with generally accounting principles in the U.S. Following is reconciliation of the shareholders' equity and net income of these companies from generally accepted accounting principles in the U.S. to generally accepted accounting principles in Israel.

	March 31,				December 31,	
	2005		2004		2004	
	ECI	Scitex	ECI	Scitex	ECI	Scitex
	Unaudited				Audited	
U.S. dollars in thousands						
Shareholders' equity:						
As reported by the affiliate	574,896	155,470	573,369	275,693	551,768	154,274
Net adjustments to generally accepted accounting principles in Israel	(3,551)	1,137	113	(1,757)	(3,505)	1,173
As adjusted	<u>571,345</u>	<u>156,607</u>	<u>573,482</u>	<u>273,396</u>	<u>548,263</u>	<u>155,447</u>
	Three months ended March 31,				Year ended December 31,	
	2005		2004		2004	
	ECI	Scitex	ECI	Scitex	ECI	Scitex
	Unaudited				Audited	
U.S. dollars in thousands						
Net income (loss) for the period:						
As reported by the affiliate	10,432	1,781	(1,226)	50,289	10,153	47,253
Net adjustments to generally accepted accounting principles in Israel	12,093	(621)	2,794	5,744	(11,380)	8,375
As adjusted	<u>22,525</u>	<u>1,160</u>	<u>1,568</u>	<u>56,033</u>	<u>(1,227)</u>	<u>55,628</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5:- DISCONTINUED OPERATIONS**

In December 2004, the Company sold its entire holdings in Polgat Ltd., whose activities constituted a significant line of business.

According to Accounting Standard No. 8, assets, liabilities, revenues, expenses and cash flows attributed to the discontinued operations are presented separately from those attributable to the Company's continuing operations. Comparative data as of March 31, 2004 have been reclassified in order to segregate the items attributable to the discontinued operations from those of the continuing operations.

**NOTE 6:- DIVIDEND**

On March 23, 2005, the Company declared a dividend in the amount of NIS 108 million, representing NIS 0.69 per each NIS 1 par value. The dividend was paid on April 17, 2005.

**NOTE 7:- BUSINESS SEGMENTS**

a. Segment revenues (1):

	<b>Three months ended March 31,</b>		<b>Year ended December 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in millions</b>		
Cement	265	188	1,089
Textile	210	209	831
High-technology and electronics	15	60	86
Venture capital funds	1	(3)	(14)
Biotechnology	(2)	(10)	(16)
Real estate	*) 261	19	75
Other	101	78	373
	851	541	2,424
Other revenues, net	-	**) 135	284
Total in the statement of income	851	676	2,708

\*) Mainly due to sale of land (see Note 3a).

\*\*) Mainly gain of NIS 140 million from the sale of the holdings in Ormat's shares which is included in the "Other" segment and impairment of investments in biotechnology companies of NIS 7 million.

(1) Including segment's share of earnings of affiliates.

**CLAL INDUSTRIES AND INVESTMENTS LTD.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7:- BUSINESS SEGMENTS (Cont.)**

b. Segment results:

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in millions</b>		
Cement	56	38	271
Textile	17	14	40
High-technology and electronics	6	45	127
Venture capital funds	1	(6)	(3)
Biotechnology	(16)	(25)	(53)
Real estate	*) 233	6	39
Other	9	147	215
	306	219	636
Adjustments (1)	(3)	(2)	(18)
Financial expenses	(14)	(18)	(113)
	289	199	505
	289	199	505

\*) Mainly due to sale of land (see Note 3a).

(1) Including other expenses, net, which were not allocated to a segment.

**NOTE 8:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

- a. In April 2005, the Company entered into an agreement for the off-market purchase of about 15% of the share capital of Beit Shemesh Engine Holdings (1997) Ltd. ("Beit Shemesh Engine") for a total consideration of approximately \$ 3 million. Upon closing, which is dependent upon the fulfillment of several conditions, it is expected that the Company's aggregate holdings in Beit Shemesh Engine will increase to about 36%.
- b. In May 2005, the Company issued, by a private placement, debentures (series L) in the amount of NIS 333 million to institutional investors (of which NIS 62 million was issued to related parties). The debentures (principal and interest) are linked to the Israeli CPI of March 2005, are repayable in five equal annual installments from January 2009 and bear interest of 4.35% per annum on the unpaid balance. The interest is payable in January of each of the years 2006 to 2013 (inclusive).

The Company have undertaken to register the above debentures for trading ("list") on the Stock Exchange no later than September 30, 2006. Should the debentures not be listed on the Stock Exchange by that date, the debenture holders will be entitled to demand their early repayment. For debentures in respect of which no written demand for early repayment is requested, the original terms of the debentures will remain in effect.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)**

- c. On March 23, 2005, the Company's board of directors approved the publication of a prospectus in the context of which the Company will list the debentures (series L) that had been issued to private and institutional investors in May 2005, as described above, and will also list NIS 140 million par value of debentures, which will be issued to a wholly-owned subsidiary of the Company ("the subsidiary"). These debentures together with the debentures described above, represent one series (series L) for all purposes.

In addition, as part of the above prospectus, the Company intends to issue debentures (series M) to the public, of up to a total of NIS 70 million. The debentures will bear interest at a rate determined by a tender, but not less than 4.5% and not more than 5.1%. The debentures will be linked (principal and interest) to the Israeli CPI of April 2005 and will be repayable in five equal annual installments starting January 2013. The interest is payable in June of each of the years 2006 through 2017 (inclusive). The subsidiary has undertaken to buy 20% of the units offered in this issuance at an interest rate to be determined in the institutional tender.

- d. In May 2005, a subsidiary issued, by private placement, non-marketable debentures in the amount of approximately NIS 300 million (of which NIS 22 million was issued to related parties). The debentures are linked to the Israeli CPI and bear interest at the rate of 4.2% per annum. The principal of the debentures is repayable in five equal annual installments from May 2009. As part of the issuance, the subsidiary has undertaken towards the investors to refrain from recording liens in favor of others.
- e. For several months, negotiations have been held between Barak I.T.C. (1995) - International Telecommunications Company Ltd. ("Barak"), 44% - held by Clalcom Ltd. ("Clalcom"), a 71.5% held subsidiary of the Company, and an ad-hoc committee of the holders of Barak's debentures ("the committee") regarding the restructuring of Barak's equity and debt in view of Barak's anticipated difficulty in redeeming the debentures ("the negotiations"). In the context of the negotiations, Barak, the committee, Barak's shareholders (including Clalcom) and the Company ("the parties") agreed in principle on a plan for the restructuring of Barak's equity and debt ("the plan").

The plan stipulates that in exchange for the debt to the present holders of the debentures (including interest not yet paid in respect thereof and the deferred interest payments as above):

- (1) The holders of the debentures will receive \$ 40 million in cash, of which approximately \$ 7.65 million will be paid upon the signing of a memorandum of understandings between the parties and the balance of \$ 32.35 million will be paid upon the execution of the plan.
- (2) The debenture principal for the present holders of the debentures will amount to \$ 65 million and will bear annual interest of 10% (commencing from March 2005) to be paid in semi-annual installments. The principal will be paid in one installment at the end of five years, with a possibility for early redemption, subject to certain conditions.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)**

In the context of the plan, the Company and/or Clalcom will provide a total of approximately \$ 32 million (to be used as payment to the holders of the debentures as above) and will jointly hold (directly and through Clalcom) in excess of 95% of Barak's share capital. The amount to be provided and the holding rate are subject to changes due to the fact that Matav Investments Ltd., which currently holds about 10% of Barak's share capital, is entitled to participate at a rate of about 18.5% in the financing to be provided by the Company and Clalcom under terms similar to those stipulated in the plan. The parties are working to sign a memorandum of understanding by the end of this month or close after it and later toward signing a binding agreement.

In a meeting held on May 23, 2005, the Board of Directors decided to approve, in principle, the Company's involvement in the above agreement. To the best of the Company's knowledge, as close as possible to the date subsequent to the signing of the agreement, Barak intends to submit the plan for the approval of the Court and of the holders of the debentures, in accordance with the provisions of Section 350 of the Companies Law. In addition to those approvals, the plan requires the approval of Barak's financing banks, various regulatory approvals (including the approval of the Ministry of Communication) and the approval of certain third parties. The Company estimates that the excess cost over book value that will arise upon the completion of the transaction, in respect of its investment in Barak, will amount to between NIS 360 million and NIS 400 million.

- f. On May 23, 2005, Clalcom's Board of Directors approved the entering into several agreements with other companies, including companies controlled by an interested party (together - "the minority group"), with Telecom Italy and companies under its control with respect to their holdings in Mediterranean Nautilus Ltd. and Med-1 Underwater Cables Ltd., in each of which Clalcom holds 15%, as described in Note 9c3(b) to the Company's financial statements as of December 31, 2004 ("the Med transaction"). According to Clalcom's articles of association, Clalcom's involvement in the Med transaction requires the approval of its board of directors and of its shareholders.

A director of the Company, a controlling shareholder of the Company and a Co-CEO of the Company, who is also a controlling shareholder of the Company, have a personal interest in the approval of the Med transaction deriving from the control of the aforementioned director in additional companies in the minority group and from being related to the aforementioned controlling shareholders.

On May 23, 2005, the Company's Board of Directors, after receiving the approval of the Company's audit committee, decided to approve that the Company vote of the shareholders' meeting of Clalcom for the approval of Clalcom's entering into the Med transaction. The Board of Directors also determined that the Med transaction's terms relating to Clalcom do not differ significantly from the Med transaction's terms relating to the companies controlled by the director of the Company and relating to the other individuals in the minority group (and are in fact identical in their commercial terms), taking into account their relative share in the Med transaction.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)**

Pursuant to Regulation 1(4) of the Companies Regulations (Relief Regarding Transactions with Interested Parties), 2000 ("the Relief Regulations"), the decision to approve the Company's vote at the shareholders' meeting of Clalcom does not require the approval of the Company's shareholders. Nevertheless, according to Regulation 1c of the Relief Regulations, in the event that one or more shareholders holding at least 1% of the Company's share capital announce no later than 7 days from the date in which the Company publishes an immediate report on the matter, that they object to the Relief, then according to the Relief Regulations, the approval of the Company's decision to vote at the shareholders' meeting of Clalcom will require the approval of the Company's shareholders pursuant to the majority required for the approval of an exceptional transaction in which a controlling shareholder has a personal interest. The Company will also have to publish a report pursuant to the Securities Regulations (Transactions Between a Corporation and a Controlling Party Therein), 2001.

**NOTE 9:- CONTINGENT LIABILITY**

In 2003 and 2004, several lawsuits and demands were filed against Scitex Vision Ltd. (formerly: Aprion Digital Ltd.) ("SVN") and others, including directors of SVN and various of its shareholders, including the Company's wholly owned subsidiary ("the subsidiary") which holds about 7% of SVN, and Scitex which holds about 75% of SVN (collectively, "the defendants").

The lawsuit and demands were filed by one of the minority shareholders in SVN and they concern the manner in which the defendants performed several transactions of SVN, alleged damages that he incurred, and amounts due to him following these transactions, and they primarily address a transaction in the context of which SVN acquired from Scitex the entire issued share capital of a wholly owned subsidiary of Scitex at the time ("the Scitex subsidiary"), in consideration for the issuance of shares of SVN to Scitex.

In April 2005, a compromise agreement was signed between the minority shareholder and Scitex, the subsidiary and Discount Investments Ltd. (which is also among the defendants and which holds about 7% of SVN) pursuant to which the above lawsuit and demands are dismissed and the parties mutually waive any other claims and demands relating to SVN. Similarly, according to the compromise agreement Scitex, the subsidiary and Discount Investments Ltd. will purchase the minority shareholder's interest in SVN (about 1.9%) for a total immediate payment of \$ 1.6 million (the subsidiary's share is approximately \$ 126 thousand) and a contingent future payment, whose actual payment and amount are conditional upon that within two years Scitex, the subsidiary and Discount Investments Ltd. sell their holdings and/or part of their holdings in SVN for a consideration that is based on a higher value for SVN compared to the value for which the above immediate payment was based. The minority shareholder's interest in SVN shares to be purchased will be allocated between Scitex, the subsidiary and Discount Investments Ltd. proportionally to their current holdings in SVN.

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