

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

JANUARY - SEPTEMBER 30, 2000

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1. Description of the Company

Clal Industries and Investments Ltd., ("CII" or "the Company") is an investment company, whose principal holdings are in the manufacturing and high-technology industries. As a result of the merger of Clal (Israel) and IDB Development Corporation Ltd., the Company is currently held directly by IDB Development Corporation Ltd.

CII is principally engaged in the acquisition, establishment and development of companies in various industries and takes an active role in the management of its investee companies, in particular when it is the largest investor.

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

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

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

2. Results of Operations

A. Net income

Net income for the third quarter amounted to NIS 38 million as compared with NIS 68 million in the corresponding quarter in the prior year. Net income for the quarter includes the effects of non-recurring net positive items amounting to NIS 3 million. In the corresponding quarter last year the effects of non-recurring net positive items were in the amount of NIS 21 million.

Net income for the reported period amounted to approximately NIS 199 million in comparison to NIS 364 million in the corresponding period in the previous year and NIS 426 million for all of 1999. Net income for the reported period includes capital gains and the effects of non-recurring net positive items amounting to NIS 108 million in comparison to NIS 227 million in the corresponding period last year.

The principal decrease in current income for the quarter as compared to the corresponding quarter last year results from the decrease in ECI's and Polgat's income and an increase in financing expenses. These effects were partly offset by an increase in the Company's share in Mashav.

As a result of the completion of the merger of the pre-printing product division of Scitex with Creo, Scitex included a gain of approximately NIS 547 million in its financial statements, based on the fair value of Creo shares registered for trading. The aforementioned gain is net of depreciation of research and development in progress expenses and tax effects.

The financial statements of Scitex are prepared in accordance with U.S. accounting standards and include a gain of NIS 369 million for the period reported and a loss of NIS 67 million in the third quarter. The Company includes its investment in Scitex on an equity basis, based on the financial statements of Scitex following the adjustment to Israeli accounting principles. As a result of this adjustment of Scitex's income to Israeli accounting principles, Scitex contributed a loss of NIS 11 million to the Company for the period and a loss of NIS 7 million in the third quarter.

B. The following is a review of the activities of the principal investee companies in the third quarter:

- **Nesher:** There was a reduction in the sale of cement (1%) in comparison to the corresponding period last year as a result of the continued erosion of prices (3%) which was set off by an increase in the volume of cement sold. Net income of companies in the cement sector amounted to NIS 48 million as compared to NIS 50 million last year.

As a result of the security situation in the region, subsequent to balance sheet date a sharp decline in the demand for cement in Israel and the administrated territories occurred.

For the period as of the date of the report through November 20, Nesher sales decreased by approximately 35% as compared to sales for the corresponding period last year.

Subsequent to the date of the report, Nesher took a decision to cease its old production line of cement clinker and to examine the possibility of establishing a new production line when suitable conditions arise. This will result in a change in the Company's operating costs and the number of personnel. At this stage, it is not possible to quantify the anticipated effects of these changes on the Company's operating results.

- **ECI:** Net income for the third quarter of the year was NIS 59 million as compared to NIS 221 million in the corresponding quarter in the prior year. Sales in the quarter increased by 15% and amounted to NIS 1,317 million in comparison to NIS 1,150 million in the corresponding quarter in the prior year. ECI announced its intention to split the Company into five separate companies in order to accelerate their growth and increase shareholders' equity.

- **Scitex:** As a result of the reorganization which was completed with the merger of the pre-printing operations with Creo, Scitex became an investment company which specializes in printing. In the current quarter Scitex lost NIS 67 million.
- **AIPM:** Net income for the third quarter amounted to NIS 16 million, as compared to NIS 12 million in the corresponding quarter in the prior year. The increase in current profit was due to an increase in activities in all areas which was partly set off by an increase in the price of raw materials.
- **Kitan:** Net income for the third quarter amounted to NIS 7 million, as compared to NIS 4 million in the corresponding quarter in the prior year. The principal increase in income was due to an improvement in the results of the Golf-Kitan chain of stores. The Golf-Kitan chain of stores has submitted a draft prospectus to the Securities Authority.
- **Polgat:** The company reported a decrease in net income from NIS 12 million for the corresponding quarter last year to NIS 1 million this year. This decrease in income results mainly from a decrease in sales, primarily due to the erosion of sales prices to central customers and the revaluation of the dollar against the British pound. In the reported period, Polgat accelerated the transfer of production operations outside of Israel as part of the measures taken to significantly decrease production costs during 2001. Polgat entered into an agreement with the Turkish Group - Guney Sanayi with respect to the merger of the companies.
- **Barak:** The increase in revenues continued reaching NIS 146 million for the quarter, as compared to NIS 117 million in the corresponding quarter last year. Barak completed the current quarter with a gross profit of NIS 23 million as compared to a gross loss of NIS 4 million in the corresponding quarter in the prior year. Net loss for the quarter decreased to NIS 21 million as compared to NIS 52 million in the corresponding quarter in the prior year. In the second quarter Barak transferred over to a positive EBIDTA of NIS 1.3 million for the first time, which increased to NIS 3.8 million in the third quarter of the year.
- **Fundtech:** Income for the quarter increased by 94% from NIS 29 million last year to NIS 56 million in the current quarter. The increase in sales brought about a net income of NIS 9 million as compared to a loss of NIS 6 million in the corresponding quarter last year.

C. The following is selected data from the financial statements of the principal investee companies (in millions of shekels - rounded):

	Sales (*)				Net Income (Loss)(**)			
	For the nine months ended September 30		For the three months ended September 30		For the nine months ended September 30		For the three months ended September 30	
	2000	1999	2000	1999	2000	1999	2000	1999
CEI	60	50	21	19	(3)	590	(21)	28
Mashav	1,319	1,310	497	446	125	136	53	56
Kitan	541	529	185	171	19	13	7	4
AIPM (***)	564	1,117	130	384	65	44	16	12
Barak	376	306	146	117	(89)	(127)	(21)	(52)
Polgat (***)	372	461	131	154	3	38	1	12
Fundtech	142	97	56	29	10	-	9	(6)

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

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

(***) 1999 includes those companies whose consolidation was terminated in 2000.

D. *Earnings per share*

Earnings per NIS 1 par value share for the reported period was NIS 1.4, as compared with NIS 2.6 for the corresponding period in the prior year and NIS 3.0 for all of 1999.

E. *Return on shareholders' equity*

The rate of return on shareholders' equity for the quarter was approximately 8.5% as compared with 16.9% for the corresponding quarter in the prior year and 15.3% for all of 1999.

3. *Financial Position*

Total assets in the consolidated balance sheet of the Group as of September 30, 2000, amounted to NIS 7,512 million, as compared with NIS 5,755 million at the end of the corresponding period last year and NIS 6,212 at the end of 1999.

The principal increase in the consolidated balance sheet as of September 30, 2000 stems from the full inclusion of the assets and liabilities of Mashav, as a result of the acquisition of 50% thereof in January 2000.

Due to the external financing sources of the investment in Mashav and additional companies, the Company incurred a deficit in working capital of NIS 1,300 million.

4. *Principle Changes in Investments*

- 4.1 In January 2000, the Company acquired all of Koor Industries' holdings in Mashav in consideration for NIS 885 million. On completion of the transaction, the Company's holding in Mashav increased to 100%. The acquisition was financed by the increase in the Company's external sources of financing.
- 4.2 In June 2000, Clalcom sold 8.2% of Med-1's capital to Telecom - Italy in consideration for NIS 78 million. The net gain from the transaction amounted to NIS 52 million. The balance of Clalcom's holding in Med-1, as well as in Med Nautilus (the Company which coordinates the international cable activities of Med-1's shareholders') is 15%.
- 4.3 In April 2000, Scitex completed an agreement for the merger of its pre-printing operations with those of the Canadian Company, Creo. On completion of the transaction, Scitex holds 26% of the share capital of Creo. With respect to the effect of the merger on the Company's results - see paragraph 2A.

During the year, Clal Electronics Industries Ltd. ("CEI") acquired additional shares in Scitex at a cost of NIS 50 million, subsequent to which CEI's holdings in Scitex increased to 21.5%.

- 4.4 In March 2000, CEI invested NIS 50 million in debentures convertible into shares of Orckit. As a result of the split of Orckit, the debentures are convertible into shares of Orckit and Tioga Technologies Ltd.
- 4.5 In March 2000, the Company invested NIS 30 million in the shares of Orsus. As of September 30, the Company's holdings in Orsus increased to 14%.
- 4.6 In March 2000, CEI converted ECI's convertible debentures into shares. As of September 30, 2000, CEI's holding in ECI increased to 13.8%.

- 4.7 In March 2000, the Company sold part of its holdings in BVRT in consideration for NIS 11 million. The Company recorded a gain of NIS 8 million.
- 4.8 In April 2000, Nova raised NIS 198 million in an initial public offering in the U.S. As a result of the issuance, CEI's holdings in Nova decreased to 19.8% generating capital in the amount of NIS 21 million.
- 4.9 In April 2000, the Company made a commitment to invest \$10 million in the Carmel Fund, of which, as at reported date, the Company's actual investment is \$2 million.
- 4.10 In May 2000, the Company sold all its remaining holdings in Sunfrost in consideration for NIS 16 million. As a result of the sale, the Company recorded a gain of NIS 9 million.
- 4.11 In June 1998, CBI received an additional consideration with respect to the sale of PRI shares as a result of which, the Company recorded a gain of NIS 7 million.
- 4.12 From May through August, a wholly owned subsidiary acquired 7.8% of Med Yavne and Med Ashdod's petroleum and gas license for an aggregate amount of NIS 20 million. This investment was implemented concurrently with the acquisition by other partners of 7.2% of Mediterranean Energy.

At a partners meeting held October 2000, regarding the Med Yavne license, the drilling contractor submitted a report from a consulting firm which estimated the aggregate quantity of gas (IN PLACE) in the "Nir" reservoir to be 274 million cubic feet.

In November 2000, the partners of Middle East Energy Limited Partnership ("MEE") British Gas and the Isramco Group entered into a cooperation agreement regarding the joint supply of natural gas to the Electrical Company in accordance with submission of proposals to the Electrical Company with respect to the provision of 2.5 billion cubic meters of gas for a period of 10-20 years.

- 4.13 In July, CBI invested an additional NIS 21 million in Compugen. In August, Compugen raised NIS 200 million in the framework of an initial public offering in the U.S. Subsequent to the offering, CIB's holdings in Compugen reached 12.1%.
- 4.14 During the year CEI invested NIS 43 million in shares of VocalTec Communications Ltd. thereby increasing it to 4.9%.
- 4.15 In the reported period, the Company undertook together with CEI (in equal parts) to invest in capital venture funds - Star (\$5 million), Genesis II (\$6 million) and Hyperion (\$5 million). In addition the Company invested, together with CEI (in equal parts) \$5 million in Celletra Ltd.

- 4.16 In the reported period, the Group invested NIS 56 million in ViryaNet Ltd., subsequent to which the Group's holding therein reached 15%.
- 4.17 In October, CIB invested 10.6 million Euro in Immune Designed Molecules S.A. (IDM) in France, in consideration for 5.6% of IDM. In addition, options were granted to CIB for an additional investment of 2.1 million Euro.
- 4.18 In October, CEI invested NIS 40 million in Saifun Semi Conductors Ltd. in consideration for 2.5% in Saifun.
- 4.19 The Company is conducting negotiations for the sale of 50% of its holdings in Mashav to an international strategic partner in the construction and cement industry.

On September 29, 2000, the parties entered into a Memorandum of Understanding, on the basis that the parties continue their negotiations. The transaction includes several real estate assets which do not make use of Mashav's central activities.

The parties determined that the transaction will be based on the company's valuation of \$850 million, net of Mashav's financial liabilities, with an addition of approximately \$17 million with respect to several of Mashav's real estate assets.

The parties discussed the principles regarding the joint management of Mashav.

The Company granted the purchaser the exclusive right to conduct a fair value assessment on Mashav.

There is no certainty regarding the realization of the transaction and the parties have not entered into any obligation for the implementation thereof. Furthermore, all transactions, if any, will be subject to, amongst others, the approvals of the Companies' authorized institutions as well as those approvals required by law.

5. *External Influences*

The political and security situation in Israel may have a negative effect on some of the Group companies, particularly those that sell to areas which fall under the Palestinian Authority.

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

No changes.

7. *Assistance to the Israeli Community*

CII views its contribution and assistance to the community as a vital component of its visionary business plan. Commencing in 1998, in the framework of the IDB Group and in cooperation with the University of the Negev, the Company has adopted a special social project - an open housing program in three neighborhoods of Beer Sheva.

The Company encourages the Group companies to intensify their activities in the framework of "Business for the Community" projects.

The Tapuach Foundation was established at the initiative of the IDB Group and with the participation of the Company and its subsidiaries, for the promotion of information in Israel, the aim thereof being to train the general public for Internet utilization and the acquisition of technological skills while focusing on underprivileged neighborhoods, development towns and minority settlements.

The Foundation's long term program includes the establishment of 30 community centers.

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

8. *Replacement of the Company's General Manager*

The Company's General Manager, Mr. Rimon Ben-Shaoul announced his resignation from the Company in January 2001. The Company's Board of Directors appointed Mr. Meir Shannie as his replacement as the General Manager of the Company. Mr. Shannie will commence his duties in January 2001.

LEON RECANATI
Chairman of the Board

RIMON BEN-SHAOUL
General Manager

Tel-Aviv, November 26, 2000

CLAL INDUSTRIES AND INVESTMENTS LTD.

**SELECTED CONSOLIDATED FINANCIAL DATA
AS OF SEPTEMBER 30, 2000
(Unaudited)**

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED BALANCE SHEET DATA

In thousands of shekels of September 2000

	September 30		December 31
	2000	1999	1999
	(Unaudited)		(Audited)
<u>Assets</u>			
Current assets	1,465,953	1,584,147	1,863,854
Deposits, long-term loans and debts	87,800	124,257	91,744
Investments	3,237,573	2,531,819	2,775,568
Fixed assets, other assets and differed charges	<u>2,720,727</u>	<u>1,514,559</u>	<u>1,481,077</u>
	<u>7,512,053</u>	<u>5,754,782</u>	<u>6,212,243</u>
<u>Liabilities and Shareholders' Equity</u>			
Current liabilities	2,621,885	1,037,545	1,679,805
Long-term liabilities	747,471	660,817	524,137
Minority interests	867,465	965,708	893,515
Shareholders' equity	<u>3,275,232</u>	<u>3,090,712</u>	<u>3,114,786</u>
	<u>7,512,053</u>	<u>5,754,782</u>	<u>6,212,243</u>

CLAL INDUSTRIES AND INVESTMENTS LTD.

SELECTED CONSOLIDATED STATEMENT OF INCOME DATA

In thousands of shekels of September 2000

	For the nine		For the three		For the year ended December 31 1999 (Audited)
	months ended		months ended		
	September 30		September 30		
	2000	1999	2000	1999	
	(Unaudited)		(Unaudited)		
Revenues, net	2,590,622	2,055,255	869,255	676,952	2,665,759
Costs and expenses	2,291,598	1,338,811	814,929	545,845	1,879,715
Income before taxes on income	299,024	716,444	54,326	131,107	786,044
Taxes on income	92,094	57,032	20,972	29,037	47,584
Income after taxes on income	206,930	659,412	33,354	102,070	738,460
Minority interests	8,340	295,900	(4,832)	34,326	312,173
Net income	<u>198,590</u>	<u>363,519</u>	<u>38,186</u>	<u>67,744</u>	<u>426,287</u>
Earnings per share (in shekels)	<u>1.41</u>	<u>2.60</u>	<u>0.27</u>	<u>0.48</u>	<u>3.04</u>