

CLAL INDUSTRIES AND INVESTMENTS LTD.

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY - SEPTEMBER 2003**

1. *Description of Company*

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

On May 19, 2003, El Yam Financial Holdings (Hamigdal) Ltd., The Israeli Company for Financing and Investments Ltd. and Israel Financial Holdings Ltd., completed the sale of all of their holdings (51.7%) in IDB Holdings Ltd., the controlling shareholder of the parent company, to a group comprising Ganden Holdings Ltd., Ganden Investments IDB Ltd., Manor Investments IDB Ltd. and Avraham Livnat Investments (2002) Ltd. (“the buyers”).

The Company is principally engaged in the incorporation, acquisition, development and improvement of companies in various industries. The Company strives to take a part in the management and the formulation of strategies of the companies in which it is involved, principally when the Company has a significant holding in the investee company. The Company has access to a variety of business opportunities, being constantly alert for investments with appropriate potential return. Simultaneously, the Company strives to enhance the value of its existing investments, with a view to realizing those investments at the appropriate time.

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

In May 2002, the Board of Directors of the Company approved the basic principles for a new long-term business plan for the Company. The basic principles include, among others, focus on a limited number of material holdings with realizable growth potential in respect of which the Company can exert a significant influence; emphasis on development of management resources; and focus on investments in a rapid growth sector including support and encouragement of long-term strategic processes in the investee companies. These processes will be evaluated and adapted on a continuing basis. Secondly, the Company is adjusting its operating profile through adoption of advanced management and business tools.

As a result of adoption of the plan, the Company’s investments were classified into four groups: core holdings, venture capital, biotechnology and other real holdings.

The Company’s results of operations are affected, to a significant extent, by capital gains and write-downs. Accordingly, significant fluctuation is likely in the Company’s results of operations between the various reporting periods.

The Company regards its contribution to the community as an important component of its business strategy.

2. *Results of Operations*

- A. Net income for the third quarter amounted to NIS 53 million, as compared to a loss of NIS 214 million in the corresponding quarter of the prior year.

The profit in the quarter includes net positive non-recurring factors amounting to NIS 38 million, attributable principally to elimination of the provision for impairment in Scitex (NIS 40 million) (see also Note 10B to the financial statements) and adoption of Interpretation No. 1 of Accounting Standard No. 15 in respect of the Company's investment in ECI (NIS 12 million) (see also Notes 2 and 4B to the financial statements), that were offset in part by negative factors in respect of write-downs of investments in companies (NIS 13 million). The corresponding quarter of the previous year included net negative non-recurring factors amounting to NIS 173 million.

The transition to regular profit (before non-recurring factors) in this quarter as compared to the corresponding quarter of the prior year is mainly due to an improvement in the results of Neshar (partly as a result of a change in the estimated useful lives of assets), a decrease in the losses of venture capital funds in respect of adjustments of the values of investments and a decrease in financing expenses that were offset in part by Polgat's transition to a loss.

The loss in the reporting period amounted to NIS 154 million, as compared with a loss of NIS 270 million in the corresponding period of the prior year, and a loss of NIS 420 million for all of 2002.

The loss in the reporting period includes net negative non-recurring factors amounting to NIS 90 million, attributable principally to write-downs of investments in biotechnology companies (NIS 41 million), write-downs of investments in venture capital funds (NIS 33 million), losses from declines in holdings in investee companies (NIS 21 million), efficiency measures in Neshar (NIS 20 million), and adjustments and write-downs of assets by ECI (NIS 12 million). These factors were offset in part by elimination of the provision for impairment in Scitex (NIS 40 million) and adoption of Interpretation No. 1 of Accounting Standard No. 15 in respect of the Company's investment in ECI (NIS 12 million). The corresponding period of the prior year included net positive non-recurring factors amounting to NIS 169 million.

The decrease in the regular loss (before non-recurring factors) in the reporting period compared with the corresponding period of the prior year is due to a decrease in losses in venture capital funds in respect of adjustments of the values of investments, an increase in the contribution of the core holdings and a decrease in investments in gas exploration, that were offset in part by an increase in financing expenses.

The loss per share in the reported period was NIS 0.98, compared with a loss of NIS 1.72 in the corresponding period of the prior year and a loss of NIS 2.68 for all of 2002.

Following is an analysis of the operating results (in NIS millions):

	Three months ended September 30, 2003			Three months ended September 30, 2002		
	Regular	Non-recurring	Total	Regular	Non-recurring	Total
Core holdings	36	46	82	11	(87)	(76)
Venture capital	(2)	(3)	(5)	(13)	(6)	(19)
Biotechnology	(11)	(5)	(16)	(18)	(45)	(63)
Other real holdings	3	-	3	(3)	(35)	(38)
Company						
headquarters	(1)	-	(1)	(1)	-	(1)
Financing	(10)	-	(10)	(17)	-	(17)
Net income (loss)	15	38	53	(41)	(173)	(214)

	Nine months ended September 30, 2003			Nine months ended September 30, 2002		
	Regular	Non-recurring	Total	Regular	Non-recurring	Total
Core holdings	32	-	(11)	8	(54)	(46)
Venture capital	(27)	(31)	(58)	(49)	(27)	(76)
Biotechnology	(36)	(43)	(79)	(41)	(47)	(88)
Other real holdings	10	(6)	4	(4)	(41)	(45)
Company						
Headquarters	(3)	(10)	(13)	(5)	-	(5)
Financing	(40)	-	(40)	(10)	-	(10)
Net income (loss)	(64)	(90)	(154)	(101)	(169)	(270)

B. *Data of Principal Investee Companies*¹

Following are data from the financial statements of the principal investee companies (in NIS millions):

	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	
	2003	2002	2003	2002	2003	2002	2003	2002
Mashav	1,060	1,025	399	375	58	42	51	19
ECI ²	1,443	2,207	464	655	(255)	(660)	(65)	(396)
Scitex	900	787	318	256	(29)	(18)	22	(3)
AIPM	355	337	119	113	46	29	14	10
Kitan	568	587	194	201	(2)	10	3	5
Polgat	570	526	204	194	4	19	(6)	4
Ormat	365	273	136	127	45	(3)	31	4
Barak	553	529	229	182	50	41	(14)	8
Fundtech	154	130	53	44	(3)	(56)	1	(21)

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

¹ Relate to the published financial statements of ECI, Scitex and Fundtech prepared in accordance with accounting principles generally accepted in the United States.

² Comparative amounts in the financial statements of ECI were restated to reflect discontinued operations.

C. *Review of the Operations of Principal Companies*¹:

Nesher – There was an increase in revenues from sales of cement (8%) as compared to the corresponding quarter of the prior year, mainly as a result of an increase in prices and an increase in quantities sold. The profit for the quarter amounted to NIS 47 million as compared to profit of NIS 17 million in the corresponding quarter of the prior year (the profit for the quarter includes a non-recurring expense in respect of efficiency measures implemented in the amount of NIS 5 million). The increase in regular profit for the quarter compared to the corresponding quarter of the prior year was due to a decrease in depreciation expense as a result of the change in the estimated useful lives of assets, an increase in revenues and a decrease in operating expenses (in the corresponding quarter of the prior year one of the furnaces was renovated).

During the first quarter, Nesher revised the estimated useful lives of its assets utilized in the manufacture of cement and, as a result, the period of the depreciation was extended from 10 – 15 years to 20 years. The change in the estimate resulted in an increase of NIS 21 million in operating income for the quarter and an increase of NIS 16 million in net income, as compared to the corresponding quarter of the prior year (see also Note 4A to the financial statements).

ECI² - Gross profit in the third quarter amounted to NIS 178 million (gross profit margin – 38%), compared to NIS 233 million (gross profit margin – 36%) reported in the corresponding quarter of the prior year. The operating loss for the quarter amounted to NIS 85 million (including negative non-recurring factors amounting to NIS 13 million) compared to an operating loss of NIS 186 million (including negative non-recurring factors amounting to NIS 151 million) in the corresponding quarter of the prior year. The net loss for the quarter amounted to NIS 65 million (including negative non-recurring factors amounting to NIS 12 million), compared to a net loss of NIS 396 million (including negative non-recurring factors amounting to NIS 251 million) in the corresponding quarter of the prior year. The loss for the quarter before non-recurring factors and before ECI's equity in the results of ECTel amounted to NIS 26 million as compared to a loss of NIS 157 million in the corresponding quarter of the prior year.

Scitex – Sales for the quarter amounted to NIS 318 million as compared to NIS 256 million (increase of 24%) in the corresponding quarter of the prior year. The operating income for the quarter amounted to NIS 21 million, compared to operating income of NIS 6 million in the corresponding quarter of the prior year. The increase in operating income was derived from an increase in sales that was offset in part by the increase in operating expenses incurred as a result of the merger of Aprion and Scitex Vision. The net income for the quarter amounted to NIS 22 million (including a capital gain of NIS 16 million from sale of the balance of Scitex's holdings in Creo Inc; Scitex received these shares in the past in consideration for sale of its pre-printing operations to Creo), as compared to a loss of NIS 3 million in the corresponding quarter of the prior year. During the quarter, the transfer of the manufacturing operations of Scitex Vision and Aprion to a single location in Netanya was completed. Subsequent to the date of the financial statements, Scitex announced the sale of the operations of Scitex Digital Printing Inc., a wholly owned subsidiary of Scitex (see 5.6 below).

¹ Relate to the published financial statements of ECI, Scitex and Fundtech prepared in accordance with accounting principles generally accepted in the United States.

² Comparative amounts in the financial statements of ECI were restated to reflect discontinued operations.

AIPM – Operating income in the quarter amounted to NIS 12 million, similar to the corresponding quarter of the prior year. The operating income remained stable as compared to the corresponding quarter of the prior year, despite an increase in shekel operating expenses (as a result of the revaluation of the shekel relative to the dollar as between the reporting periods), and this was due to an increase in sales (6%) while maintaining the gross profit ratio. Net income for the quarter amounted to NIS 14 million as compared to NIS 10 million in the corresponding quarter of the prior year (the prior year includes a non-recurring expense of NIS 3 million). The increase in net income before non-recurring factors was due mainly to an increase in AIPM's equity in earnings of associated companies and to the transition from financing expenses to financing income which was mostly offset by an increase in income tax expense.

Kitan – Sales for the quarter amounted to NIS 194 million, compared to NIS 201 million in the corresponding quarter of the prior year. The decrease in sales was due to a decrease in sales in the manufacturing operations. Operating income for the quarter amounted to NIS 5 million, similar to operating income in the corresponding quarter of the prior year. The level of operating income remained stable thanks to efficiency measures implemented by Kitan Group Companies, which brought about a decrease of NIS 4 million in selling, general and administrative expenses. Net income for the quarter amounted to NIS 3 million as compared to NIS 5 million in the corresponding quarter of the prior year. The decrease in net income was the result of the transition from financing income to financing expenses (difference of NIS 6 million) that was offset in part by a decrease in income tax expense.

Polgat – Gross profit in the quarter amounted to NIS 36 million (gross profit margin – 17.5%), compared to NIS 42 million (gross profit margin – 22%) in the corresponding quarter of the prior year. The decrease in gross profit was due mainly to the decrease in sales of the Turkish subsidiary, Guney Polgat, and to the effect of the revaluation of the Turkish lira relative to the dollar. The operating loss for the quarter amounted to NIS 2 million, as compared to operating income of NIS 6 million in the corresponding quarter of the prior year. The transition to an operating loss was due principally to the increase in the operating loss of Guney Polgat (NIS 5 million) as compared to the corresponding quarter of the prior year. The transition to an operating loss and the increase of NIS 4 million in financing expenses as compared to the corresponding quarter of the prior year was responsible for the transition from net income of NIS 4 million in the corresponding quarter of the prior year to a net loss of NIS 6 million in the current quarter. During the current quarter, Guney Polgat appointed a new president, with extensive international experience in the textile sector.

Ormat – Revenues from sales in the quarter increased by 7%, due mainly from renovation projects for geothermic power stations in the United States and from sales of equipment to utilities in other locations worldwide. Gross profit amounted to NIS 58 million (gross profit margin – 43%) as compared to NIS 50 million (gross profit margin – 39%) in the corresponding quarter of the prior year. The increase in gross profit is derived mainly from a change in the composition of sales in the products and services segment. The increase in selling, marketing and general expenses as a result of the business development in the power station segment in the United States and the increase in research and development expenses, reduced the increase in gross profit such that operating income for the quarter was about the same as in the corresponding quarter of the prior year. Net income for the quarter amounted to NIS 31 million, compared to NIS 28 million from continuing operations in the corresponding quarter of the prior year (before a prior year loss of NIS 24 million from discontinued operations). The increase in net income before discontinued operations was due mainly to an increase in other income arising from a capital gain upon dilution of an investment in an associated company.

Subsequent to the date of the financial statements, Ormat announced that its offer for the acquisition of rights in three geothermic power stations in the United States in consideration for U.S.\$ 214 million was accepted.

Barak³ – Revenues from sales in the quarter amounted to NIS 229 million, compared to NIS 182 million in the corresponding quarter of the prior year. The increase in sales was due to the sale of capacity and the continuing increase in revenues in the broadband Internet segment, that were offset in part by the continuing aggressive competition and the recession in data and voice mail services. Operating income for the quarter amounted to NIS 29 million, compared to NIS 34 million in the corresponding quarter of the prior year. Most of the change in operating income was due to erosion of gross profit and an increase in selling and marketing expenses. The net loss for the quarter amounted to NIS 14 million, compared to net income of NIS 8 million in the corresponding quarter of the prior year. The transition to a loss was due mainly to the revaluation of the shekel relative to the dollar that resulted in an increase of NIS 12 million in financing expenses as compared to the corresponding quarter of the prior year.

Fundtech – The net income for the quarter amounted to NIS 1 million, compared to a loss of NIS 21 million in the corresponding quarter of the prior year (the prior year included non-recurring items in the amount of NIS 7 million). The improvement in quarterly results before non-recurring expenses was due mainly to an increase of NIS 9 million in sales (increase of 20%) and a decrease (NIS 5 million) in development expenses compared to the corresponding quarter of the prior year.

In general, the results of the Group companies in the third quarter were affected by the increase in demand in the domestic market and the increase in capital expenditures abroad, mainly in the high tech companies and in Ormat, that contributed to an increase in the volume of sales of most of the Group companies. This improvement, together with the positive effect of efficiency measures implemented in most of the Group companies, resulted in an improvement in operating results. The increase in real shekel interest rates (as a result of the negative price index in the current quarter) and the increase in interest rate margins, resulted in an increase in financing expenses that was moderated in part by the improvement in operating results of most of the Group companies. Also, the capital markets in Israel and worldwide have recently been showing signs of recovery.

The continuing improvement in the results of the Group companies is dependent, in large part, on the situation in domestic and international markets that is, in turn, dependent, among others, upon the effect of the security situation in Israel and worldwide.

³ In accordance with generally accepted accounting principles, the Company recorded a provision in the amount of NIS 10 million in respect of its investment in Barak (December 31, 2002 – provision in the amount of NS 11 million), taking into account the shareholders' deficiency of Barak and the guarantee provided by a subsidiary as part of the conditions for receipt of the license by Barak.

3. *Financial Position and Sources of Finance*

The consolidated balance sheet reflects a working capital deficiency of NIS 96 million. As of balance sheet date, short-term liquid assets in the consolidated balance sheet amounted to NIS 167 million. These assets are included in short-term investments and cash and cash equivalents. The consolidated quick ratio is 0.49 (December 31, 2002 – 0.46). The principal sources of funds in the period were from realization of investments in the amount of NIS 73 million, issuance of commercial paper in the net amount of NIS 66 million, receipt of long-term loans in the amount of NIS 75 million and receipt of short-term loans from banks in the amount of NIS 59 million. Most of the cash was utilized for the repayment of long-term loans in the amount of NIS 327 million, investment in companies in the amount of NIS 81 million and acquisition of fixed and other assets in the amount of NIS 57 million.

As of September 30, 2003, the Company's shareholders' equity amounted to NIS 2,304 million, as compared to NIS 2,517 million as of December 31, 2002 (decrease of 8% in equity). The minority interest was NIS 103 million (December 31, 2002 – NIS 103 million). Shareholders' equity and minority interests together constituted a source of finance for 48% of the Group's assets.

The Group's external long-term sources of finance totaled NIS 905 million as of September 30, 2003 (December 31, 2002 - NIS 1,158 million). Approximately 19% of this financing is repayable within the next year.

As of September 30, 2003, the net liabilities of the Company and its wholly owned headquarter companies amounted to NIS 682 million (December 31, 2002 - NIS 837 million).

Subsequent to the date of the financial statements, the Company raised NIS 441 million from institutional investors in the framework of a private placement of non-marketable debentures (Series K). The debentures are linked to the Consumer Price Index, bear interest at an annual rate of 5.95% and are repayable in seven equal annual installments as from May 2007. The debentures received a rating of AA from Maalot.

One of the conditions included in the permit granted to the buyers from the Governor of the Bank of Israel on May 12, 2003, was that the Nochi Dankner Group, including companies controlled by him (which includes the Company and its investee companies), will not increase, in real terms, its debt to the Bank Hapoalim Group above the amount existing as of the date the permit was granted. Any change in this debt will be approved in accordance with the procedures of Bank Hapoalim relating to approval of transactions with "related individuals". These conditions will be in effect until the Supervisor of Banks advises that he is satisfactorily convinced that the business relationships between the family of Yitzhak Dankner (father of Nochi Dankner) and the other Dankner family members have been terminated.

4. *Dividend*

On the date of approval of the financial statements, the Company's board of directors declared a dividend in the amount of NIS 306 million, or NIS 1.95 per share. The dividend will be paid on December 21, 2003. The date of record is December 7, 2003 and the ex-dividend date is December 8, 2003.

5. *Principal Changes in Investments and in Investee Companies*

5.1 In January 2003 the Company sold its holdings in shares and debentures of Orckit in consideration for NIS 71 million. The Company did not have a gain or loss from this sale.

5.2 In February, the Company invested NIS 3 million in Shellcase and converted to shares convertible loans in the amount of NIS 14 million. After this investment and conversion of the loans to shares, the Company's holdings in Shellcase are 29%.

In September 2003 the Company invested NIS 3 million in a loan convertible to shares of Shellcase.

5.3 In June 2003, in accordance with agreements with the shareholders of Med 1 and Med Nautilus, Clalcom Ltd. and a wholly owned subsidiary of Clalcom gave notification regarding the exercise of the put options they held for the sale of 50% of their holdings in Med 1 and Med Nautilus (7.5% of the share capital of each of the companies) in consideration for the fair value of these companies as will be determined by a mechanism established by the parties (see also Note 4A to the financial statements).

5.4 During the reporting period, the Company invested in other companies, directly and indirectly (through wholly owned subsidiaries), as follows (in NIS millions):

	Nine months ended September 30 2003	Three months ended September 30 2003
Core holdings	8	-
Venture capital	48	7
Biotechnology	18	9
Other real holdings	-	-
Total	74	16

5.5 During the period from September 30, 2003, until the date of approval of the financial statements, the Company invested, directly and indirectly (through wholly owned subsidiaries), NIS 4 million, mainly in the venture capital segment.

5.6 In November 2003 Scitex signed an agreement for the sale of the entire business of Scitex Digital Printing, a wholly owned United States subsidiary of Scitex, in consideration for U.S.\$ 250 million in cash. Also, in the framework of the transaction, Scitex will retain U.S.\$ 12 million of the cash expected to remain in Scitex Digital Printing upon implementation of the transaction. Accordingly, the total consideration for the transaction will be U.S.\$ 262 million. The transaction is subject to receipt of the required statutory authorizations and approvals and to fulfillment of other standard conditions for consummation of such transactions. Accordingly, the transaction is expected to be implemented after receipt of all the required authorizations and approvals.

Scitex reported that it is evaluating all of the accounting and tax implications of the transaction and at this stage estimates that, as a result of the transaction, it will record a gain in accordance with generally accepted accounting principles in the United States in the range of U.S.\$50 to U.S.\$70 million, after tax. Based on this information, the Company estimates, at this stage, that it will record, upon the consummation of the transaction, its share in the gain of Scitex from this transaction in the range of NIS 50 to NIS 70 million. This has been calculated in accordance with generally accepted accounting principles in Israel. Scitex announced its intention to distribute, after consummation of the transaction, a material cash dividend. The amount and date of distribution of the dividend have not yet been set.

The abovementioned amount signifies, in Company management's opinion, that the Company's share in the equity of Scitex is not less than the recoverable amount of the investment. Company management believes that the provision for impairment recorded previously in respect of its investment in Scitex is no longer required. Accordingly, the Company recorded in the third quarter, income of approximately NIS 40 million derived from elimination of this provision.

6. *Analysis of Market Risks to which the Group is Exposed and the Management of those Risks*

The following relates to the Company and its wholly-owned subsidiaries, whose exposure to market risks is managed by the Company. Regarding other subsidiaries, see 6.2 below.

There were no material changes in the reported period in respect of the Company's exposure to market risks and their management (as described in the directive of the Securities Authority) in relation to the Company's report in this regard on March 20, 2003.

6.1 Consolidated Schedule of Basis of Linkage (in NIS millions of September 2003)

	Linked to the Consumer Price Index	Linked to the U.S. dollar	Linked to other foreign currencies	Not linked	Non- monetary balances	Total
<u>September 30, 2003</u>						
Current assets	26	135	135	404	699	1,399
Non-current assets	37	32	-	2	3,514	3,585
Current liabilities	(187)	(189)	(160)	(950)	(9)	(1,495)
Non-current liabilities	(626)	(66)	(9)	(38)	(446)	(1,185)
Net balance sheet amounts	<u>(750)</u>	<u>(88)</u>	<u>(34)</u>	<u>(582)</u>	<u>3,758</u>	<u>2,304</u>
<u>December 31, 2002</u>						
Current assets	57	124	107	412	735	1,435
Non-current assets	35	101	-	1	3,776	3,913
Current liabilities	(349)	(380)	(142)	(703)	(25)	(1,599)
Non-current liabilities	(698)	(30)	(4)	(63)	(437)	(1,232)
Net balance sheet amounts	<u>(955)</u>	<u>(185)</u>	<u>(39)</u>	<u>(353)</u>	<u>4,049</u>	<u>2,517</u>

6.2 Subsidiaries

There were no material changes in Neshet, Polgat, Kitan and Taavura in the reported period regarding exposure to market risks and their management (as described in the directive of the Securities Authority), in relation to the report in this regard on March 20, 2003.

6.3 Derivatives

Following are data regarding derivative financial instruments of the Company, Polgat, Kitan and Taavura as of September 30, 2003 (Neshet did not have derivative financial statements as of that date) in NIS millions of September 2003:

	U.S. dollar/NIS							
	Notional amount				Fair value			
	Up to one year		More than one year		Up to one year		More than one year	
	Long ¹	Short ²	Long	Short	Long	Short	Long	Short
<u>Options</u>								
Collar used for hedging – recognized for accounting purposes	93				(2)			
For hedging – not recognized for accounting purposes	5	31			(*)		(*)	
<u>Forward exchange</u>								
For hedging – recognized for accounting purposes			2				(*)	
For hedging – not recognized for accounting purposes			25				(*)	
Euro/NIS								
	Notional amount				Fair value			
	Up to one year		More than one year		Up to one year		More than one year	
	Long ¹	Short ²	Long	Short	Long	Short	Long	Short
	<u>Options</u>							
For hedging – not recognized for accounting purposes	9				(*)			
Sterling/U.S. dollar								
	Notional amount				Fair value			
	Up to one year		More than one year		Up to one year		More than one year	
	Long ¹	Short ²	Long	Short	Long	Short	Long	Short
	<u>Options</u>							
For hedging – recognized for accounting purposes		17					(*)	
<u>Forward exchange</u>								
For hedging – recognized for accounting purposes		88		22		(2)		(*)

* Less than NIS 1 million.

¹ Purchased call options and written put options.

² Purchased put options and written call options.

	U.S. dollar/Euro							
	Notional amount				Fair value			
	Up to one year		More than one year		Up to one year		More than one year	
	Long	Short	Long	Short	Long	Short	Long	Short
<u>Forward exchange</u>								
For hedging –recognized for accounting purposes	16	1			(1)		(*)	
For hedging – not recognized for accounting purposes	1				(*)			

* Less than NIS 1 million.

6.4 Subsequent Events

There were no material events in respect of market risks subsequent to balance sheet date.

7. *Contingent Liability*

In January 2003, the merger of Scitex Vision Ltd., a wholly owned subsidiary of Scitex, and Aprion Digital Ltd. (“Aprion”), an associated company of Scitex, was finalized. After the merger, Scitex holds 75% of the merged company.

In October 2003 a claim in the amount of NIS 14 million was filed in the Tel Aviv District Court against Scitex, Aprion and others, including a wholly owned subsidiary of the Company that owns 7% of Aprion. The claim alleges that the terms of the transaction and its implementation were done in such a way that they impaired the rights of the claimant as a minority shareholder of Aprion.

According to management of the Company and its legal counsel, the subsidiary has a viable defense against the claim insofar as it relates to the subsidiary (see also Note 8 to the financial statements).

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

.....
NOCHI DANKNER
 Chairman of the Board
 of Directors

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AVI FISCHER
 Director and Co-CEO

.....
ZVIKA LIVNAT
 Director and Co-CEO

Tel Aviv, November 26, 2003.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

as of September 30, 2003

(Unaudited)

TRIES AND INVESTMENTS LTDCLAL INDUS.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2003**

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The Board of Directors of
CLAL INDUSTRIES AND INVESTMENTS LTD.

**Re: Review of condensed interim consolidated financial statements (unaudited)
for the nine months and three months ended September 30, 2003**

At your request, we have reviewed the consolidated balance sheet of CLAL INDUSTRIES AND INVESTMENTS LTD. as of September 30, 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine months and 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 abovementioned financial statements; reading minutes of shareholders' meetings and of the meetings of the Board of Directors and committees thereof; and making inquiries of persons responsible for financial and accounting matters.

We were furnished with the reports of other accountants regarding their review of interim financial statements of subsidiaries whose assets constitute approximately 51% of total consolidated assets as of September 30, 2003, and whose revenues from sales and services constitute approximately 43% and 49% of total consolidated revenues from sales and services for the nine months and three months then ended, respectively. Also, the data relating to the carrying value of most of the investments in associated companies and the Group's equity in the earnings of these companies are based on financial statements reviewed by other accountants.

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 financial statements.

Based on our review, including a review of the reports of other accountants referred to above, we are not aware of any material modifications that should be made to the aforementioned 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.

Luboshitz Kasierer
Certified Public Accountants (Isr.)

Tel Aviv, November 26, 2003

3115-09-2003e

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED BALANCE SHEETS

In millions of shekels of September 2003

	<u>September 30</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
CURRENT ASSETS			
Cash and cash equivalents	86	73	59
Short-term investments	81	146	125
Trade receivables	468	441	460
Other receivables and prepayments	102	93	88
Inventories	662	687	703
	<u>1,399</u>	<u>1,440</u>	<u>1,435</u>
LONG-TERM DEPOSITS, LOANS AND RECEIVABLES	<u>29</u>	<u>49</u>	<u>42</u>
INVESTMENTS			
Investee companies	1,233	1,309	1,332
Others	438	726	561
	<u>1,671</u>	<u>2,035</u>	<u>1,893</u>
FIXED ASSETS			
Cost	5,704	5,739	5,712
Less - accumulated depreciation	4,015	3,925	3,945
	<u>1,689</u>	<u>1,814</u>	<u>1,767</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>196</u>	<u>228</u>	<u>211</u>
	<u>4,984</u>	<u>5,566</u>	<u>5,348</u>

	<u>September 30</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
CURRENT LIABILITIES			
Banks	767	916	905
Trade payables	271	307	304
Other payables and accrued expenses	367	328	321
Other current liabilities	90	41	69
	<u>1,495</u>	<u>1,592</u>	<u>1,599</u>
LONG-TERM LIABILITIES			
Debentures	468	474	468
Loans	254	339	311
Deferred taxes	219	219	217
Termination benefits	113	98	101
Other liabilities	28	35	32
	<u>1,082</u>	<u>1,165</u>	<u>1,129</u>
MINORITY INTERESTS	<u>103</u>	<u>111</u>	<u>103</u>
SHAREHOLDERS' EQUITY	<u>2,304</u>	<u>2,698</u>	<u>2,517</u>
	<u><u>4,984</u></u>	<u><u>5,566</u></u>	<u><u>5,348</u></u>

.....
NOCHI DANKNER
Chairman of the Board of
Directors

.....
ZVIKA LIVNAT
Director and Co-CEO

.....
AVI FISCHER
Director and Co-CEO

.....
GIL MILNER
Vice President - Comptroller

Date of approval of financial statements:
November 26, 2003

The notes to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF INCOME

In millions of shekels of September 2003, except earnings per share

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
REVENUES, NET					
Sales and services	1,989	2,003	726	721	2,700
Equity in earnings (losses) of associated companies, net	(6)	(*)116	45	(*)104	(*)220
	<u>1,983</u>	<u>1,887</u>	<u>771</u>	<u>617</u>	<u>2,480</u>
COSTS AND EXPENSES					
Cost of sales and services	1,404	1,455	500	522	1,947
Selling and marketing expenses	306	293	104	108	390
General and administrative expenses	149	148	45	39	192
Other expenses, net	140	(*)169	15	(*)111	(*)203
Financing expenses, net	90	42	28	27	78
	<u>2,089</u>	<u>2,107</u>	<u>692</u>	<u>807</u>	<u>2,810</u>
Income (loss) before taxes on income	(106)	(220)	79	(190)	(330)
TAXES ON INCOME	39	40	26	21	69
Income (loss) after taxes on income	(145)	(260)	53	(211)	(399)
MINORITY INTEREST	9	10	-	3	21
Net income (loss)	<u>(154)</u>	<u>(270)</u>	<u>53</u>	<u>(214)</u>	<u>(420)</u>
EARNINGS (LOSS) PER NIS 1 PAR VALUE OF SHARE CAPITAL (IN NIS)	<u>(0.98)</u>	<u>(1.72)</u>	<u>0.34</u>	<u>(1.36)</u>	<u>(2.68)</u>

(*) Reclassified (see Note 2).

The notes to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In millions of shekels of September 2003

	Share capital	Reserves (*)	Retained earnings		Total
			Dividend declared subsequent to balance sheet date	Unappropriated retained earnings	
Unaudited					
Balance as of January 1, 2003	1,262	405	-	850	2,517
Adjustments arising from translation of financial statements of investee companies	-	(59)	-	-	(59)
Net loss	-	-	-	(154)	(154)
Dividend	-	-	306	(306)	-
Balance as of September 30, 2003	<u>1,262</u>	<u>346</u>	<u>306</u>	<u>390</u>	<u>2,304</u>
Balance as of January 1, 2002	1,262	437	-	1,270	2,969
Adjustments arising from translation of financial statements of investee companies	-	42	-	-	42
Write-down of investment in investee company against capital reserve in respect of adjustments arising from translation of financial statements	-	(43)	-	-	(43)
Net loss	-	-	-	(270)	(270)
Balance as of September 30, 2002	<u>1,262</u>	<u>436</u>	<u>-</u>	<u>1,000</u>	<u>2,698</u>
Balance as of July 1, 2003	1,262	301	-	643	2,206
Adjustments arising from translation of financial statements of investee companies	-	45	-	-	45
Net income	-	-	-	53	53
Dividend	-	-	306	(306)	-
Balance as of September 30, 2003	<u>1,262</u>	<u>346</u>	<u>306</u>	<u>390</u>	<u>2,304</u>
Balance as of July 1, 2002	1,262	458	-	1,214	2,934
Adjustments arising from translation of financial statements of investee companies	-	21	-	-	21
Write-down of investment in investee company against capital reserve in respect of adjustments arising from translation of financial statements	-	(43)	-	-	(43)
Net loss	-	-	-	(214)	(214)
Balance as of September 30, 2002	<u>1,262</u>	<u>436</u>	<u>-</u>	<u>1,000</u>	<u>2,698</u>
Audited					
Balance as of January 1, 2002	1,262	437	-	1,270	2,969
Adjustments arising from translation of financial statements of investee companies	-	11	-	-	11
Write-down of investment in investee company against capital reserve in respect of adjustments arising from translation of financial statements	-	(43)	-	-	(43)
Net loss	-	-	-	(420)	(420)
Balance as of December 31, 2002	<u>1,262</u>	<u>405</u>	<u>-</u>	<u>850</u>	<u>2,517</u>

The notes to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Cont.)

In millions of shekels of September 2003

(*) Composition of reserves:

	<u>September 30</u>		<u>December 31</u>
	<u>2003</u>	<u>2002</u>	<u>2002</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
Capital reserves			
Premium on shares	576	576	576
Capitalized earnings	23	23	23
Expired warrants of investee companies	12	12	12
Purchasing power gain on promissory note issued to a company in the IDB Group	5	5	5
	<u>616</u>	<u>616</u>	<u>616</u>
Adjustments arising from translation of financial statements of investee companies	<u>(270)</u>	<u>(180)</u>	<u>(211)</u>
	<u>346</u>	<u>436</u>	<u>405</u>

The notes to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of shekels of September 2003

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	(154)	(270)	53	(214)	(420)
Adjustments to reconcile net income (loss) to net cash provided by operating activities (see A below)	348	480	54	270	696
Net cash provided by operating activities	194	210	107	56	276
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of fixed and other assets	(57)	(61)	(24)	(14)	(77)
Acquisition of newly consolidated subsidiaries (see B below)	-	(20)	-	-	(20)
Investments in associated and other companies	(81)	(123)	(21)	(24)	(143)
Decrease in marketable securities, net	3	11	2	2	11
Proceeds from disposal of fixed assets	11	11	6	4	14
Proceeds from disposal of investments	73	26	1	14	27
Proceeds from sale of previously consolidated subsidiaries (see C below)	-	33	-	-	33
Decrease (increase) in short-term deposits and loans, net	25	(57)	(13)	54	(81)
Investment in long-term deposits and loans	(5)	(59)	(3)	-	(61)
Collection of long-term loans granted to IDB Group companies	-	2	-	-	2
Collection of long-term loans granted and other receivables	37	30	15	9	66
Net cash provided by (used in) investing activities	6	(207)	(37)	45	(229)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipt of long-term loans and other liabilities from banks and others	75	199	19	6	201
Proceeds from issuance of long-term debentures	-	108	-	-	108
Repayment of long-term loans and other liabilities:					
From banks and others	(322)	(108)	(95)	(38)	(263)
From IDB Group companies	(5)	(5)	-	-	(6)
Redemption of debentures	-	-	-	-	(10)
Changes in short-term credit from banks, net	59	(175)	34	(72)	(70)
Increase (decrease) in other current liabilities, net	28	(5)	(52)	25	11
Dividend paid to minority shareholders of subsidiaries	(7)	(21)	-	-	(36)
Net cash used in financing activities	(172)	(7)	(94)	(79)	(65)
TRANSLATION DIFFERENCES IN RESPECT OF CASH BALANCES HELD BY AUTONOMOUS INVESTEES					
	(1)	-	(1)	-	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	27	(4)	(25)	22	(18)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD					
	59	77	111	51	77
CASH AND CASH EQUIVALENTS AT END OF PERIOD					
	86	73	86	73	59

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In millions of shekels of September 2003

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
A. ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Income and expenses not affecting operating cash flows:					
Minority interests	9	10	-	3	21
Equity in losses (earnings) of associated companies, net (*)	46	131	(19)	104	235
Losses (gains) on sales of investments, net	19	(15)	3	1	(15)
Decrease in value of investments, net	99	177	10	95	213
Losses of partnerships	7	10	2	5	12
Depreciation and amortization	128	177	42	61	251
Gain on disposal of fixed and other assets, net	(3)	(3)	(1)	(1)	(2)
Deferred taxes, net	(2)	5	11	5	5
Increase (decrease) in termination benefit obligations, net	14	(7)	1	(2)	(3)
Purchasing power loss (gain) on assets and liabilities, net	1	(6)	1	11	1
Changes in operating assets and liabilities:					
Decrease (increase) in receivables and prepayments	(30)	25	(27)	12	19
Decrease (increase) in inventories	26	(12)	13	(30)	(33)
Increase (decrease) in payables and accrued expenses	34	(12)	18	6	(8)
	348	480	54	270	696
 (*): Dividends received	40	15	26	-	15
B. ADDITIONAL INVESTMENT IN PROPORTIONATELY CONSOLIDATED SUBSIDIARY					
Assets and liabilities as of date of acquisition:					
Working capital (excluding cash), net	-	(4)	-	-	(4)
Fixed assets, other assets and deferred charges	-	(21)	-	-	(21)
Long-term liabilities	-	5	-	-	5
	-	(20)	-	-	(20)

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In millions of shekels of September 2003

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
C. PROCEEDS FROM SALE OF PREVIOUSLY CONSOLIDATED SUBSIDIARIES					
Assets and liabilities of subsidiaries as of date of sale:					
Working capital (excluding cash)	-	26	-	-	26
Investments, fixed assets, other assets and deferred charges	2	6	-	-	6
Long-term liabilities	(1)	-	-	-	-
Minority interest	-	(11)	-	-	(11)
Gain (loss) on sale of investment	(1)	12	-	-	12
	-	33	-	-	33
D. NONCASH TRANSACTIONS					
Sale of fixed assets on credit	-	-	-	-	1
Acquisition of fixed assets on credit	1	-	-	-	2
Investments in investee and other companies and acquisition of assets on credit	-	8	-	-	8
Transfer of inventories to fixed assets	3	-	3	-	-
Sale of investment in companies for long-term credit	-	13	-	13	13

The notes to the financial statements form an integral part thereof.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of September 2003
(Unaudited)

Note 1 - GENERAL

- A. The financial statements have been prepared in condensed form as of September 30, 2003, and for the nine months and three months then ended in accordance with generally accepted accounting principles in Israel relating to interim financial statements. These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2002, and for the year then ended.
- B. The Company is a subsidiary of IDB Development Corporation Ltd. ("the parent company"). The term "Group companies" in these financial statements refers to the Company and its investee companies. The term "IDB Group company" in these financial statements refers to an investee company of the parent company, excluding companies in the Clal Industries and Investments Ltd. Group itself.

Note 2 - ACCOUNTING POLICIES

The significant accounting policies and methods of computation followed in the preparation of these financial statements are identical to those followed in the preparation of the latest annual statements, except as stated below regarding Interpretation No. 1 to Accounting Standard No. 15.

Interpretation No. 1 to Accounting Standard No. 15

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

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

A loss from impairment of an investment in an investee company that is recognized or reversed should be presented in "equity in earnings (losses) of associated companies". Comparative data have been reclassified.

Regarding the effect of the Interpretation on the Company's results, see Note 4B.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of September 2003
(Unaudited)

Note 2 - ACCOUNTING POLICIES (Cont.)

Accounting Standard No. 14

On January 1, 2003, the Company adopted Accounting Standard No. 14, "Interim Financial Reporting". This Standard prescribes the financial statements that should be included in an interim financial report, including the disclosures required in notes to these financial statements. The Standard also establishes accounting principles for recognition and measurement applicable to interim financial reporting. In accordance with the new Standard, the recognition and measurement principles applied in the interim financial statements should be identical to those applied in the annual financial statements. Accordingly, certain costs may be allocated over a number of interim periods only if it is appropriate to accrue or to defer such costs according to accounting principles applicable to annual financial statements.

The adoption of the new Standard did not have a material effect on the financial position and operating results of the Company.

Note 3 - ADJUSTED FINANCIAL STATEMENTS

The financial statements are prepared on the basis of the historical cost convention adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Consumer Price Index.

The changes in the Consumer Price Index and in the representative exchange rate of the U.S. dollar are as follows:

	Consumer Price Index	U.S. dollar exchange rate
	%	%
	<hr/>	<hr/>
For the nine months ended:		
September 30, 2003	(1.5)	(6.2)
September 30, 2002	7.0	10.3
For the three months ended:		
September 30, 2003	(1.0)	3.0
September 30, 2002	0.6	2.1
For the year ended December 31, 2002	6.5	7.3

As of September 30, 2003, the exchange rate of the U.S. dollar in relation to the shekel was NIS 4.441 (December 31, 2002 – NIS 4.737; September 30, 2002 – NIS 4.871).

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of September 2003
(Unaudited)

Note 4 - INVESTMENTS

A. PRINCIPAL CHANGES IN REPORTING PERIOD

- (1) In January 2003, the Company sold its holdings in shares and debentures of Orckit Communications Ltd. ("Orckit") that were held by Clal Electronics Industries Ltd. ("Clal Electronics"), a wholly owned subsidiary, in consideration for NIS 71. Taking into account the provisions for impairment recorded by the Company in the past in respect of its investment in Orckit, the Company did not have a gain or loss from this sale.
- (2) In February 2003, Clal Electronics acquired shares of Shellcase Ltd. ("Shellcase") in consideration for NIS 3. In addition, Clal Electronics converted loans granted in the past to Shellcase in the amount of NIS 14 to shares. After this investment and conversion of the loans to shares, Clal Electronics' holdings in the issued and paid-up share capital of Shellcase are 29% (fully diluted - 28%). The excess of cost recorded by Clal Electronics as a result of the above, in the amount of NIS 7, was allocated to know-how and is being amortized over a period of five years.

In September 2003, Clal Electronics granted a loan in the amount of NIS 3 to Shellcase. The loan is convertible to shares of Shellcase under certain conditions as stated in the loan agreement.

- (3) In January 2003, a proportionately consolidated subsidiary (75% holding) revised the estimated useful lives of its machinery and equipment from 10 – 15 years to 20 years. The change in the estimate is based on evaluations of engineers. The total decrease in depreciation expense in the proportionately consolidated subsidiary for the nine months and three months ended September 30, 2003, amounted to NIS 59 (Company's share – NIS 44) and NIS 20 (Company's share – NIS 15), respectively.

The effect of the change on the consolidated financial statements of the Company is as follows:

	For the nine months ended September 30 2003	For the three months ended September 30 2003
Decrease in loss/increase in income before taxes on income	38	16
Increase in taxes on income	16	4
Decrease in net loss/increase in net income	<u>22</u>	<u>12</u>
Decrease in loss/increase in earnings per NIS 1 par value of share capital (in NIS)	<u>0.14</u>	<u>0.08</u>

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of September 2003
(Unaudited)

Note 4 - INVESTMENTS (Cont.)

A. PRINCIPAL CHANGES IN REPORTING PERIOD (Cont.)

- (4) Clalcom Ltd. and a wholly owned subsidiary (together – “Clalcom”) hold 15% of the share capital of Med 1 Submarine Cables Ltd. (“Med 1”) and of Mediterranean Nautilus Ltd. (“Med Nautilus”), which are engaged in the establishment, maintenance, operation and marketing of international communications networks, mainly in the Mediterranean Sea area. In November 2003, Clalcom granted to Med Nautilus, through a subsidiary, a loan in the amount of U.S.\$ 1.2 million, in accordance with a decision of the Board of Directors of Med Nautilus and with agreements of shareholders of Med Nautilus. The balance of the investment in Med 1 and Med Nautilus, after the said loan, amounted to NIS 7.

In June 2003, in accordance with agreements with the shareholders of Med 1 and Med Nautilus, Clalcom gave notification regarding the exercise of the put options it held for the sale of 50% of their holdings in these companies (7.5% of the share capital of each of the companies) in consideration for the fair value of these companies as will be determined by the parties. The Company is unable to estimate the results of the exercise of these options.

B. INVESTMENTS IN LISTED ASSOCIATED COMPANIES

	Investment as presented in			Market value as of	
	balance sheet as of			September 30	November 24
	September 30	December 31	December 31	September 30	November 24
	2003	2002	2002	2003	2003 ⁽¹⁾
	(Unaudited)		(Audited)	(Unaudited)	
ECI Telecom Ltd.	306	382	366	278	407
American Israeli Paper Mills Ltd.	192	311	223	258	290
Ormat Industries Ltd.	115	-	103	197	255
Scitex Corporation Ltd.	208	239	188	133	212
Fundtech Ltd.	107	107	115	150	183
Nova Measuring Instruments Ltd.	29	33	33	62	92
Maman – Cargo Terminals and Handling Ltd.	23	27	27	29	30
Shellcase Ltd.	17	11	7	38	43
Beit Shemesh Engine Holdings (1997) Ltd.	17	-	16	13	15
Gold Bond Group Ltd.	9	8	8	9	10
	<u>1,023</u>	<u>1,118</u>	<u>1,086</u>	<u>1,167</u>	<u>1,537</u>
Net of provision for impairment of investments (not in respect of goodwill)	<u>52</u>	<u>65</u>	<u>107</u>		

⁽¹⁾ Based on the number of shares held by the Company and Group companies as of September 30, 2003.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of September 2003
(Unaudited)

Note 4 - INVESTMENTS (Cont.)

B. INVESTMENTS IN LISTED ASSOCIATED COMPANIES (Cont.)

Following are provisions (reversals of provisions) for impairment losses not in respect of goodwill that are included in "equity in earnings (losses) of associated companies":

	For the nine months and the three months ended September 30		For the year ended December 31
	2003	2002	2002
	(Unaudited)		(Audited)
ECI Telecom Ltd.	(12) ⁽²⁾	22	22
Scitex Corporation Ltd.	(40) ⁽³⁾	-	40
Maman Cargo Terminals and Handling Ltd.	-	-	2
	<u>(52)</u>	<u>22</u>	<u>64</u>

⁽²⁾ The balance is identical to the Company's equity in the losses of this Company.

⁽³⁾ See Note 10B.

C. INVESTMENTS IN OTHER LISTED COMPANIES

	Investment as presented in balance sheet as of		Market value as of September 30 2003	Market value as of November 24 2003 (*)
	September 30	December 31		
	2003	2002		
	(Unaudited)		(Unaudited)	
Compugen Ltd.	23	23	68	68
Others	10	118	15	16
	<u>33</u>	<u>141</u>	<u>83</u>	<u>84</u>

(*) Based on number of shares held by the Company and Group companies as of September 30, 2003.

Following are the net impairment losses included in "other expenses":

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
Compugen Ltd.	-	38	-	38	38
Others	1	48	1	33	53
	<u>1</u>	<u>86</u>	<u>1</u>	<u>71</u>	<u>91</u>

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

(Unaudited)

Note 5 - ATTACHMENT OF FINANCIAL STATEMENTS OF ASSOCIATED COMPANIES

The Company attaches to these financial statements the financial statements of the following associated companies: ECI Telecom Ltd. and Scitex Corporation Ltd. Following are the effects of the adjustment of the financial statements of these companies from generally accepted accounting principles in the United States to generally accepted accounting principles in Israel:

	September 30				December 31					
	2003		2002		2002					
	ECI	Scitex	ECI	Scitex	ECI	Scitex				
	(Unaudited)				(Audited)					
U.S.\$ thousands		U.S.\$ thousands		U.S.\$ thousands						
Shareholders' equity										
As reported by the associated company	591,593	217,685	654,336	206,755	646,400	221,179				
Net adjustments to generally accepted accounting principles in Israel	2,078	(6,922)	5,629	45,371	6,596	(204)				
Adjusted amount	<u>593,671</u>	<u>210,763</u>	<u>659,965</u>	<u>252,126</u>	<u>652,996</u>	<u>220,975</u>				
	For the nine months ended September 30				For the three months ended September 30				December 31	
	2003		2002		2003		2002		2002	
	ECI	Scitex	ECI	Scitex	ECI	Scitex	ECI	Scitex	ECI	Scitex
	(Unaudited)				(Unaudited)				(Audited)	
	U.S.\$ thousands		U.S.\$ thousands		U.S.\$ thousands		U.S.\$ thousands		U.S.\$ thousands	
Income (loss) for the period										
As reported by the associated company	(57,450)	(6,629)	(148,670)	(4,004)	(14,652)	4,963	(89,134)	(766)	(155,685)	(32,030)
Net adjustments to generally accepted accounting principles in Israel	(4,966)	(3,233)	(6,561)	(414)	(3,081)	(985)	(2,056)	(138)	(6,897)	(3,567)
Adjusted amount	<u>(62,416)</u>	<u>(9,862)</u>	<u>(155,231)</u>	<u>(4,418)</u>	<u>(17,733)</u>	<u>3,978</u>	<u>(91,190)</u>	<u>(904)</u>	<u>(162,582)</u>	<u>(35,597)</u>

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

In millions of shekels of September 2003, except per share data
(Unaudited)

Note 6 - OTHER CURRENT LIABILITIES

In the reporting period, the Company issued, in a private placement, commercial paper (non-marketable promissory notes) in the amount of NIS 91. The notes are not linked, bear interest at an annual weighted average rate of 8% and are repayable at the earlier of various dates until February 2004 or on demand. The balance of the outstanding commercial paper as of September 30, 2003, is NIS 66.

Note 7 - RELATED PARTY

According to the employment agreement of the former General Manager of the Company ("the General Manager"), the General Manager is entitled, in the event of the transfer of control in IDB Holdings Ltd. ("IDB Holdings Ltd.") to give notification regarding the termination of his employment in the Company. In such case, the General Manager will be entitled to continue to receive payments according to his employment agreement until January 2008. The total annual cost of compensation of the General Manager amounts to NIS 2. On May 19, 2003, the control in IDB Holdings was transferred. At the beginning of June 2003, a notification was received regarding the cessation of his duties as the General Manager. The financial statements include a provision in respect of the aforementioned.

Note 8 - CONTINGENT LIABILITY

In October 2003, a claim in the amount of NIS 14 was filed in the Tel Aviv District Court against Aprion Digital Ltd. ("Aprion") and others, including directors and shareholders of Aprion, among them Clal Electronics, that holds 7% of Aprion, and Scitex, that holds 75% of Aprion.

The claim was filed by one of the minority shareholders in Aprion in respect of damages allegedly caused, and amounts allegedly due, to the minority shareholder as a result of a transaction in the framework of which Aprion acquired from Scitex all of the outstanding shares of Scitex Vision Ltd., that was a wholly owned subsidiary of Scitex, in consideration for the issuance of shares of Aprion to Scitex. The claim alleges mainly that the terms of the transaction and its implementation were done in such a way that they impaired the contractual and other rights of the claimant as a shareholder of Aprion, including breach of legal obligations of the defendants toward the claimant.

According to management of the Company and its legal counsel, Clal Electronics has a viable defense against the claim insofar as it relates to Clal Electronics. Therefore, no provision in respect of the claim was recorded in the financial statements.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

(Unaudited)

Note 9 - BUSINESS SEGMENT INFORMATION

A. SEGMENT REVENUES ⁽¹⁾

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)		(Unaudited)		(Audited)
Cement	601	578	235	219	770
Textile	1,136	1,152	412	414	1,540
High technology and electronics	(5)	(123)	42	(93)	(210)
Venture capital funds	-	-	-	-	-
Biotechnology	(19)	(23)	(6)	(8)	(39)
Real estate	43	62	9	16	112
Other	227	241	79	69	307
	<u>1,983</u>	<u>1,887</u>	<u>771</u>	<u>617</u>	<u>2,480</u>

B. SEGMENT RESULTS

Cement	96	68	67	21	90
Textile	25	48	8	16	61
High technology and electronics	(74)	(221)	30	(138)	(305)
Venture capital funds	(24)	(50)	-	(14)	(76)
Biotechnology	(78)	(83)	(19)	(59)	(124)
Real estate	26	35	9	18	61
Other	27	28 ⁽²⁾	16	(5)	46 ⁽²⁾
	(2)	(175)	111	(161)	(247)
Adjustments ⁽³⁾	(14)	(3)	(4)	(2)	(5)
Financing expenses	(90)	(42)	(28)	(27)	(78)
Income (loss) before taxes on income	<u>(106)</u>	<u>(220)</u>	<u>79</u>	<u>(190)</u>	<u>(330)</u>

⁽¹⁾ Includes equity in losses of associated companies.

⁽²⁾ Includes non-recurring amount of NIS 37 in respect of decrease of provision for loss in associated company.

⁽³⁾ Includes other expenses, net, not allocated to segments.

CLAL INDUSTRIES AND INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

(Unaudited)

Note 10 - EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- A. In November 2003, the Company issued to institutional investors, in a private placement, non-marketable debentures (Series K) in the amount of NIS 441 (of which NIS 112 were issued to a related party). The debentures are linked to the Consumer Price Index, bear interest at an annual rate of 5.95% and are repayable in seven equal annual installments as from May 2007.
- B. On November 25, 2003, Scitex signed an agreement for the sale of the business of Scitex Digital Printing Inc. ("SDP"), a wholly owned United States subsidiary of Scitex, including the assets and liabilities of SDP and certain subsidiaries of Scitex that are involved in the activities of SDP – all in consideration for U.S.\$ 250 million payable in cash upon implementation of the transaction. Also, in the framework of the transaction, Scitex will retain U.S.\$ 12 million of the cash expected to remain in SDP upon implementation of the transaction. Accordingly, the total consideration for the transaction is U.S.\$ 262 million.

The transaction is subject to receipt of the required statutory authorizations and approvals and to fulfillment of other standard conditions for consummation of such transactions. Accordingly, the transaction is expected to be implemented after receipt of all the required authorizations and approvals.

Scitex reported that it is evaluating all of the accounting and tax implications of the transaction and at this stage estimates that, as a result of the transaction, it will record a gain in accordance with generally accepted accounting principles in the United States in the range of U.S.\$ 50 to U.S.\$ 70 million, after tax. Based on this information, the Company estimates, at this stage, that it will record, upon the consummation of the transaction, its share in the gain of Scitex from this transaction in the range of NIS 50 to NIS 70. This has been calculated in accordance with generally accepted accounting principles in Israel. Scitex announced its intention to distribute, after consummation of the transaction, a material cash dividend. The amount and date of distribution of the dividend have not yet been set.

The abovementioned amount signifies, in Company management's opinion, that the Company's share in the equity of Scitex is not less than the recoverable amount of the investment. Company management believes that the provision for impairment recorded previously in respect of its investment in Scitex is no longer required. Accordingly, the Company recorded in the third quarter, income of approximately NIS 40 derived from elimination of this provision.

- C. On November 26, 2003, the Company declared a dividend in the amount of NIS 306, or NIS 1.95 per share. The dividend will be paid on December 21, 2003. The date of record is December 7, 2003, and the ex-dividend date is December 8, 2003. The dividend is presented as a separate component of shareholders' equity "Dividend declared subsequent to balance sheet date".

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