

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows:

a. General:

- 1) Nature of operations

Scitex Corporation Ltd. (the "Company") is an Israeli corporation which designs, manufactures and markets digital systems for the digital preprint and digital printing markets.

On January 17, 2000, the Company and Creo Products Inc. ("Creo"), a Canadian company traded on NASDAQ and the Toronto Stock Exchange, entered into an agreement to combine their worldwide preprint operations.

Under the terms of the agreement, Creo will acquire the assets of the Company's digital preprint business in exchange for 13.25 million Creo shares. Upon completion of the transaction, the Company will hold approximately 27% of Creo shares (fully diluted). The new graphic arts group - tentatively named Creo/Scitex - will combine the preprint operations of the Company and Creo.

The transaction will be accounted for by the Company as a purchase. Closing of the transaction is subject to regulatory approvals and the approval of Creo's shareholders at a meeting to be held on March 30, 2000. Upon completion of the transaction, the Company will enter into a five-year standstill agreement which, amongst other things, includes restrictions on acquiring additional Creo shares, as well as customary transfer, voting and other restrictions. Assets and liabilities transferred to Creo will be in an amount sufficient to bring the book value of the net tangible assets transferred to \$221 million at December 31, 1999.

Revenues, gross profit, assets and liabilities in respect of the preprint operations are as follows:

	1999
	U.S. dollars in millions
Revenues	492
Gross profit	201
	December 31, 1999
	U.S. dollars in millions
Assets	346
Liabilities	113

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - (continued)

2) Functional currency

The currency of the primary economic environment in which the operations of the Company and most of its subsidiaries are conducted is the U.S. dollar ("dollar" or "\$"); thus, the dollar is the functional currency of the Company and most of its subsidiaries.

For the Company and those subsidiaries whose functional currency is the dollar, transactions and balances denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions reflected in the statements of operations, the exchange rates at transaction dates are used, except for expenses deriving from non-monetary items, which are translated using historical exchange rates. The currency transaction gains or losses are carried to financial income or expenses, as appropriate.

The financial statements of certain subsidiaries and entities in which the Company has an equity investment, whose functional currency is their local currency, are translated into dollars in accordance with the principles set forth in Statement of Financial Accounting Standards ("FAS") No. 52 of the Financial Accounting Standards Board of the United States ("FASB") - "Foreign Currency Translation": assets and liabilities are translated using the year-end rate of exchange; results of operations are translated at average exchange rates during the year. The resulting aggregate translation adjustments are reported as a component of "accumulated other comprehensive income".

3) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

4) Accounting principles

The consolidated financial statements are prepared in accordance with U.S. GAAP.

b. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany balances and transactions have been eliminated in consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - (continued)

c. Cash equivalents

The Company and its subsidiaries consider all highly liquid debt instruments purchased with a maturity of three months or less, at time of investment, that are not restricted as to withdrawal or use, to be cash equivalents. Bank deposits with a maturity of more than three months but less than one year (from the date of deposit) are included in short-term investments.

d. Investments in marketable securities

Marketable securities, classified as "trading securities", are stated at market value and are included under "short-term investments". The changes in market value of these securities are carried to financial income or expenses.

e. Inventories

Inventories are valued at the lower of cost or market. Cost is determined as follows: components and supplies - on the moving average basis; labor and overhead - on the basis of actual manufacturing costs.

f. Equity investments

These investments are accounted for by the equity method.

g. Property, plant and equipment

These assets are stated at cost and are depreciated by the straight-line method over their estimated useful lives.

Annual rates of depreciation are as follows:

	%
Machinery and equipment	10-33 (mainly 20)
Building	4
Office furniture and equipment	6-33 (mainly 20)
Motor vehicles	15-25 (mainly 15)

Leasehold improvements are amortized by the straight-line method over the term of the lease or the estimated useful life of the improvements, whichever is shorter.

h. Goodwill and other intangible assets

Goodwill, representing the difference between the cost of the investment in subsidiaries and the fair value of their underlying net assets at the time of acquisition, and acquired goodwill, are amortized by the straight-line method over a period of 7-15 years.

Acquired technology and other intangible assets are stated at cost and amortized by the straight-line method over a period of 3-13 years (mainly 5-7 years).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - (continued)

i. Impairment of long-lived assets

When indicators of impairment are presented, the Company evaluates the carrying value of the foregoing assets and intangibles in relation to the operating performance and future undiscounted cash flows of the underlying assets.

j. Treasury shares

Company shares held by the Company, are presented as a reduction of shareholders' equity, at their cost to the Company.

k. Revenue recognition:

1) Sale of products

The Company recognizes revenue from sale of its products upon shipment. Cost of sales includes an estimate of costs associated with warranty.

2) Service revenue

Service revenue is recognized ratably over the contractual period or as services are performed.

3) Sale of supplies

The Company recognizes revenue from sale of supplies upon shipment.

l. Research and development costs

Research and development costs are charged as expense as incurred. Government funding for development of approved projects is recognized as a reduction of expenses as the related costs are incurred.

m. Advertising

These costs are expensed as incurred.

n. Allowance for doubtful accounts

The allowance is partly determined for specific accounts doubtful of collection and partly based on past experience.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - (continued)

o. Income taxes:

1) Deferred income taxes are provided for temporary differences between the assets and liabilities as measured in the financial statements and for tax purposes. Deferred taxes are computed using the tax rates expected to be in effect when these differences reverse.

2) The Company may incur an additional tax liability in the event of an intercompany dividend distribution; no additional tax has been provided, since the Company does not intend to distribute, in the foreseeable future, dividends which would result in additional tax liability.

3) Upon the distribution of dividends from the tax-exempt income of "approved enterprises" (see also note 12a), the amount distributed will be subject to tax at the rate that would have been applicable had the Company not been exempted from payment thereof. If such distribution is made, the amount of the related tax is to be charged as an expense in the income statements. The Company intends to permanently reinvest the amounts of tax exempt income and it does not intend to cause distribution of such dividends. Therefore, no deferred income taxes have been provided in respect of such tax-exempt income.

p. Derivatives

The Company enters into forward exchange contracts and purchases and writes currency options to hedge existing non-dollar assets and liabilities as well as certain firm commitments. The written options are part of the hedging policy. The Company also purchases currency options to hedge anticipated sales for the coming year, which are probable and which are expected to be denominated in non-dollar currencies. The Company does not hold or issue derivative financial instruments for trading purposes.

All of the Company's foreign exchange derivatives are designated as, and effective as, a hedge. A derivative is qualified as a hedge if: (1) the item to be hedged exposes the Company to a risk, (2) the related derivative reduces that exposure and is inversely correlated to the hedged item, and (3) the derivative is designated at inception for hedging purposes.

Gains and losses on derivatives that are hedging existing assets or liabilities are recognized in income commensurate with the results from those assets or liabilities; balances receivable or payable in respect of such derivatives are included in the balance sheets among other accounts receivable or payable, as appropriate. Gains and losses related to derivatives that are hedging firm commitments or anticipated sales are deferred, and ultimately recognized in income as part of the measurement of the results of the underlying hedged transactions. Cash flows from derivatives are recognized in the statements of cash flows together with results from the hedged item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - (continued)

q. Earnings (loss) per share ("EPS")

Basic EPS are computed based on the weighted average number of shares outstanding during each year. Diluted EPS reflects the increase in the weighted average number of shares outstanding that would result from the assumed exercise of options, calculated using the treasury-stock-method (in 1998, such effect was not included since its effect would have been anti-dilutive).

r. Stock-based compensation

Stock-based compensation arrangements are accounted for in accordance with provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and complies with the disclosure provisions of FAS No. 123, "Accounting for Stock-Based Compensation".

s. Comprehensive income

The Company adopted FAS No. 130, "Reporting Comprehensive Income" ("FAS 130"), which was issued in June 1997 by the FASB.

The Company presents its comprehensive income in the consolidated statements of changes in shareholders' equity.

t. Recently issued accounting pronouncements:

1) In June 1998, the FASB issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 established a new model for accounting for derivatives and hedging activities. FAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. FAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000 (in the case of the Company - as from January 1, 2001).

The Company is currently evaluating the impact FAS 133 will have on its financial statements.

2) In December 1999, the SEC issued SAB 101, "Revenue Recognition in Financial Statements". SAB 101 summarizes some of SEC's interpretations of the application of generally accepted accounting principles (GAAP) to revenue recognition.

The Company expects that any impact SAB 101 may have on its financial statements will be immaterial.

u. Reclassifications

Certain prior year balances have been reclassified to be consistent with the current year presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - ACQUISITIONS AND DISPOSAL OF A BUSINESS

a. Acquisitions:

1) In February 1998, the Company acquired all of the shares of Idanit Technologies Ltd., an Israeli corporation which designs and manufactures wide format ink jet printing systems, for an aggregate cash consideration of \$63,039,000 in cash.

The acquisition was accounted for by the purchase method. An amount of \$44,264,000 out of the total acquisition cost was attributed to in-process research and development and resulted in a one time non-cash charge. An amount of \$16,645,000 was attributed to goodwill and other intangible assets and is being amortized over their estimated useful lives.

2) In October 1998, the Company acquired the superwide activities of the Matan group of companies for an aggregate cash consideration of \$12,247,000. This amount is included under "acquired goodwill and other intangible assets" and is being amortized over its estimated useful life. The agreement provides for additional payments up to a maximum of \$14.5 million, based on the achievement of specified financial targets during the period from 2000 to 2004, of which \$3,993,000 was paid during 1999.

b. Discontinued operations - disposal of a business

In November 1998, the Company decided to exit from the digital video business. The digital video business of the Company was comprised of the operations of the wholly owned subsidiary Scitex Digital Video, Inc. ("SDV") and an investment in quoted shares which was classified as "available for sale securities". As a result of the decision, the Company recognized a loss from the disposal amounting to \$62,704,000, which is presented in the statement of loss for 1998 under "discontinued operations". This amount is composed of \$49,685,000 in respect of the loss from the disposal of SDV and \$13,019,000 representing the accumulated unrealized loss on available for sale shares, which was expensed. In December 1998, substantially all of the assets and liabilities of SDV were sold.

Results of these operations in 1999, 1998 and 1997 have been classified as discontinued operations. Revenues, loss from discontinued operations and the remaining asset and liability items at December 31, 1999 and 1998 in respect of the discontinued operations are as follows:

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Revenues		29,534	58,018
Operating loss		(13,831)	(16,514)
Income (loss) from discontinued operations:			
Loss from operations		(13,831)	(16,514)
Income (loss) from disposal of assets	6,950	(62,704)	
	<u>6,950</u>	<u>(76,535)</u>	<u>(16,514)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - ACQUISITIONS AND DISPOSAL OF A BUSINESS - (continued)

	December 31	
	1999	1998
	U.S. dollars in thousands	
Short-term investments - investment in shares		1,820
Other receivables	1,335	2,000
Accrued and other liabilities - accrued disposal costs	<u>3,335</u>	<u>9,323</u>

The company anticipates that no additional losses will be incurred as a result of these transactions.

NOTE 3 - TRADE RECEIVABLES

	December 31	
	1999	1998
	U.S. dollars in thousands	
The item is net of allowance for doubtful accounts	<u>16,303</u>	<u>20,400</u>

NOTE 4 - INVENTORIES - SYSTEMS AND COMPONENTS

	December 31	
	1999	1998
	U.S. dollars in thousands	
Components for manufacturing of systems	48,522	38,411
Work in process	12,038	8,137
Finished products	18,390	31,009
	<u>78,950</u>	<u>77,557</u>

NOTE 5 - INVESTMENTS AND OTHER NON-CURRENT ASSETS

	December 31	
	1999	1998
	U.S. dollars in thousands	
Equity investments:		
Joint venture companies (a)	3,148	2,756
Other	1,269	1,821
Non-current deposits	870	659
Non-current receivables	1,434	2,068
Deferred income taxes (note 12d)	164	72
Shares at cost and other (b)	3,616	1,996
	<u>10,501</u>	<u>9,372</u>

(a) The Company has provided guarantees for bank credit received by joint venture companies - \$20.2 million and \$10.2 million at December 31, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS AND OTHER NON-CURRENT ASSETS - (continued)

(b) In September 1999, the Company and other investors formed a new company - Aprion Digital Ltd. ("Aprion"), on the basis of the Company's Advanced Printing Products Division ("the Division"). The Company transferred the activity of the Division to Aprion in consideration of 17.5% of Aprion's shares, 500,000 warrants to purchase shares against cash payment of \$5.0 million and a convertible note in the amount of \$20 million, which bears interest of 5.3% per annum for the first two years and 4.0% per annum thereafter. The note is for 10 years commencing September 23, 1999 and may be converted into shares at the discretion of the Company. The Company assigned to Aprion's shares the carrying value of the assets transferred. No value was given in the Company's accounts to the note, due to uncertainty regarding the collectibility thereof, since Aprion is a development stage company. Upon conversion of the convertible note held by the Company and exercise of the warrants held by the other investors and the Company, the Company will hold approximately 43% of Aprion's shares on a fully diluted basis. In addition, the Company received \$3.0 million and \$1.5 million in consideration of (i) a license granted to use technology and patents developed or registered by the Company and (ii) participation in the Company's research and development expenses, respectively. Those amounts were credited to income in 1999.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Grouped by major classifications, the assets are composed as follows:

	Cost		Accumulated depreciation and amortization	
	December 31		December 31	
	1999	1998	1999	1998
U.S. dollars in thousands				
Machinery and equipment	217,881	207,156	171,715	153,869
Building (including land)	8,755	8,755	2,196	1,918
Leasehold improvements	43,379	41,850	26,483	24,515
Office furniture and equipment	47,853	35,630	27,195	22,799
Motor vehicles	1,425	1,758	1,127	1,146
	<u>319,293</u>	<u>295,149</u>	<u>228,716</u>	<u>204,247</u>

Depreciation and amortization of property, plant and equipment totaled \$28,000,000, \$26,181,000 and \$25,102,000 in 1999, 1998 and 1997, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

	December 31	
	1999	* 1998
	U.S. dollars in thousands	
Original amount:		
Goodwill in subsidiaries and acquired goodwill	65,908	65,908
Acquired technology and other intangible assets	43,063	37,235
	<u>108,971</u>	<u>103,143</u>
Less - accumulated amortization:		
Goodwill in subsidiaries and acquired goodwill	37,271	30,780
Acquired technology and other intangible assets	17,122	12,227
	<u>54,393</u>	<u>43,007</u>
	<u>54,578</u>	<u>60,136</u>

* Reclassified

NOTE 8 - ACCRUED AND OTHER LIABILITIES

	December 31	
	1999	1998
	U.S. dollars in thousands	
Employees and related liabilities	26,072	26,599
Taxes on income, net of advances	32,984	11,654
Advances from customers	4,592	5,669
Allowance in respect of sales financed by third parties (see note 10b (1))	3,725	6,680
Accrued disposal costs (see note 2b)	3,335	11,471
Accrued warranties	5,179	5,278
Accrued royalties	5,557	8,248
Sundry	38,495	33,989
	<u>119,939</u>	<u>109,588</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - EMPLOYEE RIGHTS UPON RETIREMENT

a. Israeli labor laws and agreements require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The liability, based upon the length of service and the latest monthly salary (one month's salary for each year worked), is mainly funded with severance pay and pension funds and with insurance companies (principally with an affiliate of two of the major shareholders of Scitex), for which the Company makes monthly payments. The amounts not funded are included among accrued liabilities.

b. The U.S. subsidiaries offer 401(k) matching plans to all eligible employees. The U.S. subsidiaries' matching contribution ranges from 50% to 200% of the first 3% of a participant's contribution, depending upon years of service, up to a maximum employer contribution of 6% of a participant's qualifying earnings.

c. Substantially all of the European subsidiaries make contributions to pension plans administered by insurance companies. Since the control and management of these funds are independent of the European subsidiaries, the amounts funded are not included in the balance sheets. The amounts not funded are included among accrued liabilities.

d. The balance sheet liability for Israeli employee rights upon retirement, and the amount funded - plan assets, are composed as follows:

	December 31	
	1999	1998
	U.S. dollars in thousands	
Liability	20,834	19,450
Less - amount funded	17,693	16,958
Unfunded balance	<u>3,141</u>	<u>2,492</u>

e. Severance pay, pension and defined contribution plan expenses totaled \$9,587,000, \$7,915,000 and \$9,236,000 in 1999, 1998 and 1997, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

1) Royalty commitments:

(a) The Company is committed to pay royalties of 2%-5% to the Government of Israel on sales of products in the research and development of which the Government participates by way of grants, up to the amount of the grants received (in dollar terms). At the time the funding was received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed by royalty - bearing Government participation, the Company is not obligated to pay any such royalties to the Israeli Government.

At December 31, 1999, the maximum contingent royalty payable is \$34 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES - (continued)

(b) The Company is obligated to pay royalties to certain parties, based on agreements which allow it to use technologies developed by these parties. Such royalties are based on the revenues from sales of products which incorporate these technologies or on quantities of such products sold.

2) Lease commitments

Most of the premises occupied by the Company and its subsidiaries are rented under various operating lease agreements. Most of the premises in Israel are leased from an affiliate of two of the major shareholders of the Company.

Minimum lease commitments of the Company and its subsidiaries under the above leases (net of amounts provided in "accrued disposal costs") at rates in effect in December 1999, are as follows:

Year ending December 31	
2000	14,520
2001	13,830
2002	12,363
2003	9,890
2004	8,457
2005 and thereafter	27,473

The rental payments for the premises in Israel, which constitute approximately 18.0 % of the above amounts, are payable in Israeli currency, partially linked to the Israeli consumer price index (the "Israeli CPI"), and partially to the dollar.

Rental expense totaled \$11,376,000, \$12,408,000 and \$11,778,000 in 1999, 1998 and 1997, respectively.

b. Contingent liabilities:

1) Certain subsidiaries of the Company have entered into agreements with third-party financing companies (hereafter - the agreements) under which long-term financing (generally five years) is provided to customers in connection with the purchase of the Company's equipment.

Under the terms of the agreements, the third-party financing companies have recourse against the subsidiaries in an amount equal to either a fixed amount established at the time of financing or a percentage of the outstanding balance, including interest, owed by the customers to the financing company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES - (continued)

During the years ended December 31, 1999, 1998 and 1997, \$19,576,000, \$20,904,000 and \$38,300,000, respectively, of revenues were financed under these agreements. At December 31, 1999, the subsidiaries were contingently liable to the financing companies for a portion of the total of the outstanding balance of approximately \$45 million.

The subsidiaries have established provisions (\$3,725,000 and \$6,680,000 at December 31, 1999 and 1998, respectively) for potential losses which may be incurred in the event of default under the agreements. The level of provisions is determined based upon an analysis of the individual transactions and past experience.

2) Lawsuits have been lodged against the Company in the ordinary course of business. The Company intends to defend itself vigorously against those lawsuits. Management does not expect that the Company will incur substantial expenses in respect thereof; therefore, no provision has been made for the lawsuits.

NOTE 11 - SHAREHOLDERS' EQUITY

a. Share capital

The number of shares stated as issued at December 31, 1999 - 43,138,206 shares - includes 589,500 shares repurchased by the Company (treasury shares, see note 1j) and held by a trustee for the benefit of employees within the framework of a share option plan. These 589,500 shares, until purchased by employees pursuant to the plan, have no voting rights or rights to cash dividends.

b. Share incentive and stock option plans (the "plans")

1) The Company has two current share incentive and stock option plans - the Scitex Israel Key Employee Share Incentive Plan 1991 (with various sub-plans), mainly for directors, officers and other key employees of the Company, and the Scitex International Key Employee Stock Option Plan 1991 (As Amended in 1995), for officers and other key employees of non-Israeli subsidiaries. Option awards may be granted under the plans up to September 2001. The maximum term of an option may not exceed ten years. Each option can be exercised to purchase one share having the same rights as the other ordinary shares.

The grant of options under the Israeli plan is subject to the terms stipulated by the Israeli Income Tax Ordinance. Inter alia, the Ordinance provides that the Company may be allowed to claim as an expense for tax purposes the amounts credited to the employees as a benefit, when the related tax is payable by the employee.

2) Options granted to related parties:

a) In 1999, the Board of Directors resolved to reprice certain options granted to the CEO and President of the Company in earlier years, see (4) below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - SHAREHOLDERS' EQUITY - (continued)

b) Options granted by a principal shareholder to directors of the Company:

(1) In January 2000, a principal shareholder granted the Chairman of the Board of Directors 100,000 options, at no consideration.

The exercise price is \$14.00 per share and the options may be exercised not later than 3 years from the date of grant.

(2) In 1997, a principal shareholder granted a director of the Company 56,991 options, at no consideration. The exercise price is \$13.16 per share and the options may be exercised not later than 4 years from the date of grant.

The shares derived from the exercise of options mentioned in (1) and (2) above, will be sold to the grantees from the shares held by the principal shareholder.

3) The total number of options authorized under the plans is as follows:

	December 31	
	1999	1998
	Number of options	
Available for future awards	962,412	877,498
Outstanding	3,047,000	3,231,268
Exercised and paid	390,588	291,234
	<u>4,400,000</u>	<u>4,400,000</u>

The options granted are exercisable for the purchase of shares as follows:

	December 31	
	1999	1998
	Number of options	
At balance sheet date	1,667,128	758,902
During first year thereafter	984,247	1,232,250
During second year thereafter	199,625	1,053,366
During third year thereafter	133,750	107,750
During fourth year thereafter	62,250	79,000
	<u>3,047,000</u>	<u>3,231,268</u>

The rights to exercise options are generally conditional upon continuous employment by the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - SHAREHOLDERS' EQUITY - (continued)

4) A summary of the status of the Company's plans at December 31, 1999, 1998 and 1997, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	1999		1998		1997	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Options outstanding at beginning of year	3,231,268	10.10	3,349,950	10.00	2,389,350	17.46
Changes during the year:						
Granted	264,000	10.94	483,000	11.58	2,066,950	*9.47
Exercised and paid	(99,354)	9.12	(230,334)	9.06		
Forfeited	(348,914)	*12.00	(371,348)	11.69	(1,106,350)	*16.13
Options outstanding at end of year	<u>3,047,000</u>	*9.83	<u>3,231,268</u>	10.10	<u>3,349,950</u>	*10.00
Options exercisable at end of year	<u>1,667,128</u>	*9.60	<u>758,902</u>	9.38	<u>76,125</u>	*17.03

* During 1999, 50% of 300,000 options awarded in earlier years to a related party, with an exercise price of \$14.75 per option, were repriced to an exercise price of \$11.6875 per option, accompanied by a waiver of the remaining 50%. During 1997, 1,125,375 options awarded in earlier years, with a weighted average exercise price of \$18.00 per option, were repriced to a weighted average exercise price of \$9.15 per option subject to a revised vesting schedule. All data in this note assume election by the relevant grantees of the revised exercise price and the revised vesting schedule.

The weighted average fair value of options granted during 1999, 1998 and 1997 is \$3.32, \$5.51 and \$3.11, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31		
	1999	1998	1997
Dividend yield per share - in dollars			
Expected volatility	<u>40%</u>	<u>64%</u>	<u>25%</u>
Risk-free interest rate	<u>6.2%</u>	<u>5.2%</u>	<u>6.1%</u>
Expected life - in years	<u>2.62</u>	<u>2.38</u>	<u>2.09</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - SHAREHOLDERS' EQUITY - (continued)

5) The following table summarizes information about options outstanding at December 31, 1999:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 1999	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 1999	Weighted average exercise price
\$		Years	\$		\$
9.00 to 10.00	2,139,066	5.8	9.11	1,296,772	9.06
11.00 to 11.99	767,834	7.0	11.40	308,624	11.38
12.00 to 13.00	140,100	6.6	12.27	61,732	12.06
9.00 to 13.00	<u>3,047,000</u>	6.1	9.83	<u>1,667,128</u>	9.60

6) Accounting treatment of share incentive and stock option plans

The compensation cost in respect of the current year - in the year ended December 31, 1999, is \$26,000. The compensation income which reflects the reversal of compensation cost charged to income in earlier years in respect of employee stock options due to forfeiture, net of compensation cost in respect of the current year - in the years ended December 31, 1998 and 1997, is \$65,000 and \$1,299,000, respectively. Had compensation for the Company's plans been determined based on the fair value at the grant dates for awards made under the Plans in 1995, and thereafter, consistent with the method of FAS 123, the Company's net income (loss), and earnings (loss) per share, would have been changed to the pro-forma amounts indicated below:

	Year ended December 31			Year ended December 31		
	1999	1998	1997	1999	1998	1997
	As reported			Pro-forma		
Net income (loss) - in thousands of dollars	<u>30,514</u>	<u>(110,827)</u>	<u>582</u>	<u>29,689</u>	<u>(114,320)</u>	<u>(3,130)</u>
Earnings (loss) per share - in dollars - basic and diluted:						
Continuing operations	0.55	(0.80)	0.40	0.53	(0.88)	0.32
Discontinued operations	0.16	(1.78)	(0.39)	0.16	(1.78)	(0.39)
Net income (loss)	<u>0.71</u>	<u>(2.58)</u>	<u>0.01</u>	<u>0.69</u>	<u>(2.66)</u>	<u>(0.07)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - TAXES ON INCOME

a. The Company and its Israeli subsidiaries:

1) Tax benefits under the Law for the Encouragement of Capital Investments, 1959

The Company's production facilities in Israel have been granted "approved enterprise" status under the above law. The main benefit arising from such status is the reduction in tax rates on income derived from "approved enterprises". The Company is also a "foreign investors' company" as defined by that law and as such is entitled to a ten-year period of benefits and to an additional reduction in tax rates to 15% or 20% (based on the percentage of foreign shareholding in each tax year).

For "approved enterprises", income derived therefrom is tax exempt for a period of two or four years out of the ten-year period of benefits. Based on the percentage of foreign shareholding in the Company, income derived during the remaining eight or six years of benefits is taxable at the rate of 15% or 20%. The period of benefits relating to the "approved enterprises" will expire in the years 2000 through 2008.

In the event of distribution of cash dividends from income which was tax exempt as described above, the Company would have to pay the 15% or 20% tax in respect of the amount distributed.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above law, regulations published thereunder and the certificates of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences and interest.

2) Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the Inflationary Adjustments Law)

Under this law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli CPI, or in the exchange rate of the dollar for a "foreign investors' company". The Company and its Israeli subsidiaries elected to measure their results on the basis of the changes in the Israeli CPI.

3) Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company is an "industrial company" as defined by this law and as such is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, as prescribed by regulations published under the Inflationary Adjustments Law, and the right to claim public issuance expenses and amortization of patents and other intangible property rights as a deduction for tax purposes.

4) Tax rates applicable in Israel to income from other sources

Income not eligible for "approved enterprise" benefits mentioned in (1) above is taxed at the regular rate of 36%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - TAXES ON INCOME - (continued)

b. Non-Israeli subsidiaries

The U.S. subsidiaries file a consolidated tax return for federal purposes and in most states. Therefore, the tax provision is calculated on a consolidated tax return basis.

c. Carryforward tax losses and deductions

Carryforward tax losses and deductions of the Company and its subsidiaries approximated \$187 million at December 31, 1999. Most of the carryforward amounts have no expiration date.

d. Deferred income taxes

	December 31	
	1999	1998
	U.S. dollars in thousands	
Computed in respect of the following:		
Allowance for doubtful accounts and recourse provisions	16,127	18,204
Carryforward tax losses and credits	43,810	47,560
Inventories	8,764	5,874
Accrued liabilities and deferred income	17,883	13,803
Fixed assets	(5,959)	(2,917)
Other	(260)	793
	<u>80,365</u>	<u>83,317</u>
Less - valuation allowance	<u>36,174</u>	<u>54,819</u>
	<u>44,191</u>	<u>28,498</u>
Deferred taxes are included in the balance sheets as follows:		
Current assets	44,975	31,632
Non-current assets	164	72
Long-term liabilities	(948)	(3,206)
	<u>44,191</u>	<u>28,498</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - TAXES ON INCOME - (continued)

e. Income (loss) before taxes on income

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Israeli	35,410	2,032	(7,317)
Non-Israeli	18,815	(19,196)	28,655
	<u>54,225</u>	<u>(17,164)</u>	<u>21,338</u>

f. Taxes on income included in the statements of operations:

1) As follows:

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
Current:			
Israeli		41	2
Non-Israeli	24,751	10,847	3,664
	<u>24,751</u>	<u>10,888</u>	<u>3,666</u>
Deferred, see d. above:			
Israeli		515	(199)
Non-Israeli	(15,571)	(9,172)	(1,967)
	<u>(15,571)</u>	<u>(8,657)</u>	<u>(2,166)</u>
	<u>9,180</u>	<u>2,231</u>	<u>1,500</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - TAXES ON INCOME - (continued)

2) Following is a reconciliation of the theoretical tax expense (benefit), assuming all income is taxed at the regular tax rate applicable to Israeli corporations (see a(4) above) and the actual tax expense:

	Year ended December 31		
	1999	1998	1997
U.S. dollars in thousands			
Income (loss) before taxes on income	<u>54,225</u>	<u>(17,164)</u>	<u>21,338</u>
Theoretical tax expense (tax benefit) on the above amount	19,521	(6,179)	7,682
Effect of lower tax rate for "approved enterprises"	<u>(7,252)</u>	<u>(528)</u>	<u>1,946</u>
	12,269	(6,707)	9,628
Increase (decrease) in taxes resulting from different tax rates - net	292	(891)	(255)
Increase in taxes resulting from permanent differences	2,943	3,458	1,730
Change in valuation allowance and decrease in taxes resulting from utilization in the reported years of carryforward tax losses for which deferred taxes were not provided in previous years - net	(1,709)	511	(8,301)
Increase (decrease) in taxes arising from differences between non-dollar currencies income and dollar income - net and other*	<u>(4,615)</u>	<u>5,860</u>	<u>(1,302)</u>
Actual tax expense	<u>9,180</u>	<u>2,231</u>	<u>1,500</u>

* Resulting mainly from the difference between the changes in the Israeli CPI (the basis for computation of taxable income of the Company and its Israeli subsidiaries, see a(2) above) and the changes in the exchange rate of the Israeli currency relative to the dollar.

g. Tax audits

The Company has received final tax assessments through the 1991 tax year.

The audits of the tax returns of the U.S. subsidiaries and the main European subsidiary have been completed through the 1991 and 1995 tax years, respectively.

The Company is in the process of assessment for the tax years 1992-1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. General

The Company operates internationally, which gives rise to significant exposure to market risks, mainly from changes in foreign exchange rates. Derivative financial instruments (hereafter - derivatives) are utilized by the Company to reduce these risks. The Company is exposed to losses in the event of non-performance by counterparties to the derivatives, but it does not expect any counterparties to fail to meet their obligations, since the counterparties are major Israeli and European banks and major U.S. brokers. The Company does not require or place collaterals for these financial instruments.

b. Foreign exchange risk management

As stated in note 1p, the Company uses foreign currency derivatives for hedging purposes. All such derivatives are for the conversion of non-dollar currencies into dollar. The writing of options is part of a comprehensive hedging strategy and is designed to effectively swap the currencies relating to existing assets and liabilities. Each of the options written is combined with purchase of an option for the same period and the same notional amount. The term of all those contracts is less than one year.

The notional amounts of foreign currency derivatives as of December 31, 1999 are as follows:

	<u>Notional amount</u>
	<u>December 31, 1999</u>
	U.S. dollars in millions
Derivatives for the conversion of non-dollar currencies into dollars:	
Forward exchange contracts	53
Currency options purchased	95
Currency options written	140

c. Concentrations of credit risks

At December 31, 1999 and 1998, the Company held cash and cash equivalents, most of which were deposited with major Israeli, European and U.S. banks. Most of the marketable securities held by the Company are debt securities of the U.S. Treasury, the Government of Israel and highly rated corporations. The Company considers the inherent credit risks to be remote.

Most of the Company's sales are made in the United States and in Europe, to a large number of customers. Consequently, the exposure to concentrations of credit risks relating to individual customer receivables is limited. The Company performs ongoing credit evaluations of its customers and generally does not require collateral from its customers in Europe and in the United States. In respect of certain sales to customers in emerging economies, the Company requires letters of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - (continued)

d. Fair value of financial instruments

The financial instruments of the Company and its subsidiaries consist mainly of non-derivative assets and liabilities (items included in working capital, long-term investments, non-current receivables and long-term liabilities); the Company also uses some derivatives.

In view of their nature, the fair value of the financial instruments included in working capital is usually identical or close to their carrying amount. The fair value of non-current receivables, long-term investments and long-term liabilities also approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

The fair value and the carrying amount of derivatives at December 31, 1999 and 1998 is an asset of approximately \$1.8 million and a liability of approximately \$3.3 million, respectively. The fair value of the derivatives is determined based on a quoted market price or on the estimated amounts that the Company would receive or pay upon termination of the contracts at the reporting dates.

NOTE 14 - MONETARY BALANCES IN NON-DOLLAR CURRENCIES

	<u>December 31, 1999</u>	
	<u>Assets</u>	<u>Liabilities</u>
	U.S. dollars in thousands	
Israeli currency (a):		
Unlinked	<u>26,784</u>	<u>33,325</u>
Linked (b)	<u>225</u>	
Other non-dollar currencies (c)	<u>90,870</u>	<u>25,493</u>

(a) The above does not include balances in Israeli currency linked to the dollar.

(b) To the Israeli CPI.

(c) As to hedging transactions entered into by the Company in order to maintain the dollar value of net assets in non-dollar currencies, see note 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SELECTED INCOME STATEMENT DATA

a. Segmented information

1) General

As described in note 1a(1), the Company and its subsidiaries design, manufacture and market systems for the digital preprint and digital printing markets.

The Company and its subsidiaries' reportable segments are strategic business units which are distinguished by the geographical areas in which they generate revenues. Although the products sold and the services rendered are mostly the same, gross margins differ significantly in the various geographical areas.

The revenues are attributed to geographical segments based on location of the customers.

2) Information about reported segment profit:

a) Measurement of segment profit

The accounting policies of the segments are the same as those described in the significant accounting policies.

The Company evaluates performance mainly based on gross profit. Segment assets information is not given in (b) below, since the Company does not evaluate performance based on such assets.

b) Reportable segment operating data

	North and South America	Europe	Far East & other	Total
U.S. dollars in thousands				
Year ended December 31, 1999:				
Revenues from external customers	318,927	259,062	112,461	690,450
Segment gross profit	133,084	114,721	45,930	293,735
Depreciation and amortization	20,422	3,338	15,626	39,386
Year ended December 31, 1998:				
Revenues from external customers	296,858	236,779	106,674	640,311
Segment gross profit	120,900	101,400	49,275	271,275
Depreciation and amortization	20,251	3,368	11,847	35,466
Year ended December 31, 1997:				
Revenues from external customers	275,099	222,956	119,604	617,659
Segment gross profit	110,400	84,700	49,033	244,133
Depreciation and amortization	18,466	4,165	8,686	31,317

Scitex Corporation Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SELECTED INCOME STATEMENT DATA - (continued)

c) Geographic information

Information about geographic areas, classified by the Company's country of domicile and by foreign countries, is as follows:

1) Revenues from external customers:

	Year ended December 31		
	1999	1998	1997
U.S. dollars in thousands			
United States	314,164	293,861	265,979
Europe (mainly Western Europe)	259,062	236,779	222,956
Japan	50,277	64,573	67,320
Other countries	66,947	45,098	61,404
	<u>690,450</u>	<u>640,311</u>	<u>617,659</u>

Revenues are attributed to countries based on the location of the customers.

2) Long-lived assets:

	Year ended December 31		
	1999	1998	1997
U.S. dollars in thousands			
Israel	27,663	30,762	26,776
United States	55,606	51,522	49,473
Other countries	7,308	8,618	8,111
	<u>90,577</u>	<u>90,902</u>	<u>84,360</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SELECTED INCOME STATEMENT DATA - (continued)

	Year ended December 31		
	1999	1998	1997
	U.S. dollars in thousands		
b. Research and development costs - net			
Expenses incurred, including in process research and development (see note 2a)	72,622	121,632	68,110
Less - royalty bearing participations from the Government of Israel (note 10a(1)(a))	7,100	10,870	10,500
	<u>65,522</u>	<u>110,762</u>	<u>57,610</u>
c. Selling, general and administrative expenses			
Selling*	101,499	100,855	91,327
General and administrative**	65,749	74,142	72,584
	<u>167,248</u>	<u>174,997</u>	<u>163,911</u>
* Including advertising costs	<u>789</u>	<u>1,260</u>	<u>857</u>
** Including net change in allowance for doubtful accounts and direct write-off of bad debts	<u>8,202</u>	<u>7,625</u>	<u>15,468</u>
d. Financial income - net			
Income:			
Interest	3,537	5,049	6,954
Realized and unrealized gain on trading marketable securities - net	1,284	619	740
Non-dollar currency gains and losses - net	16	1,287	2,175
	<u>4,837</u>	<u>6,955</u>	<u>9,869</u>
Expenses:			
Interest	73	521	2,171
Bank charges	708	819	915
Cost of hedging transactions	624	644	842
	<u>1,405</u>	<u>1,984</u>	<u>3,928</u>
	<u>3,432</u>	<u>4,971</u>	<u>5,941</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - SUBSEQUENT EVENTS

a. On January 30, 2000, the Company invested \$3.3 million in RTimage Ltd. ("RealTimeImage"), a provider of professional Internet-based imaging products and services for the graphic arts and medical communities. Following the investment, the Company holds approximately 13% of the RealTimeImage shares on a fully diluted basis.

b. See also note 1a(1).

c. See also note 11b(2)(b)(1).

REPORT OF INDEPENDENT AUDITORS

To the shareholders of Scitex Corporation Ltd.

We have audited the consolidated balance sheets of Scitex Corporation Ltd. (the "Company") and its subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of an associated company, the Company's interest in capital deficiency of which amounted to \$1,138,000 as of December 31, 1999 and the Company's interest in the losses of which amounted to \$2,504,000 for the year ended December 31, 1999. Those statements were audited by other independent auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the associated company, is based solely on the report of the other independent auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audits and the reports of other independent auditors, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1999 and 1998 and the results of their operations, the changes in shareholders' equity and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Tel Aviv, Israel
February 2, 2000



Kesselman & Kesselman
Certified Public Accountants (Isr.)