

**SCITEX CORPORATION LTD.**

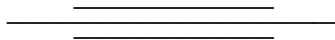
**2001 CONSOLIDATED FINANCIAL STATEMENTS**

**SCITEX CORPORATION LTD.**  
2001 CONSOLIDATED FINANCIAL STATEMENTS

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The amounts are stated in U.S. dollars (\$).



## REPORT OF INDEPENDENT ACCOUNTANTS

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, 2001 and 2000 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, 2001. 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 certain associated companies, the Company's investment in which as reflected in the balance sheets as of December 31, 2001 and 2000 is \$ 4,030,000 and \$ 375,436,000, respectively and the Company's share in the net losses of \$ 61,663,000, \$ 44,120,000 and \$ 2,504,000 in 2001, 2000 and 1999, respectively. The financial statements of those companies were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel and in the United States, 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 independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2001 and 2000 and the consolidated results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in note 2n to the consolidated financial statements, during the year ended December 31, 2000, the Company adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 and accordingly changed its method of accounting for certain revenues.

Tel-Aviv, Israel  
March 7, 2002

Kesselman & Kesselman  
Certified Public Accountants (Isr.)

**SCITEX CORPORATION LTD.**  
**CONSOLIDATED BALANCE SHEETS**

<b>Assets</b>	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	61,592	38,568
Short-term investments	2,517	9,511
Trade receivables:		
Related party		7,158
Other	76,783	57,740
Other receivables	7,262	9,186
Inventories	52,911	42,673
Deferred income taxes	20,765	27,013
T o t a l current assets	221,830	191,849
<b>INVESTMENTS AND OTHER NON-CURRENT ASSETS:</b>		
Associated companies	4,030	376,174
Other investments and non-current assets (note 5)	94,833	17,042
Funds in respect of employee rights upon retirement	2,152	3,160
Deferred income taxes	1,802	
	102,817	396,376
<b>PROPERTY, PLANT AND EQUIPMENT</b> , net of accumulated depreciation and amortization (note 6)	41,654	43,447
<b>GOODWILL AND OTHER INTANGIBLE ASSETS</b> , net of accumulated amortization (note7)	35,262	55,199
	401,563	686,871

\_\_\_\_\_  
**Meir Shannie** ) **Chairman of the Board**  
) **of Directors**

\_\_\_\_\_  
**Yehoshua Agassi** ) **Chief Executive Officer**  
)

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>U.S. dollars in thousands</b>	
<b>Liabilities and shareholders' equity</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and loans	26,649	10,000
Current maturities of long-term loans	7,000	2,000
Trade payables	18,668	16,552
Accrued and other liabilities	55,804	104,095
T o t a l current liabilities	<u>108,121</u>	<u>132,647</u>
<b>LONG-TERM LIABILITIES:</b>		
Loans from banks, net of current maturities	4,500	16,308
Note payable issued to an investee company	17,579	16,635
Deferred income taxes	4,835	10,257
Liability for employee rights upon retirement	2,593	3,649
T o t a l long-term liabilities	<u>29,507</u>	<u>46,849</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (note 9)</b>		
T o t a l liabilities	<u>137,628</u>	<u>179,496</u>
<b>SHAREHOLDERS' EQUITY (note 10):</b>		
Share capital - ordinary shares of NIS 0.12 par value (authorized - December 31, 2001 and 2000 - 48,000,000 shares; issued and outstanding - December 31, 2001 and 2000 - 43,467,388 shares)	6,205	6,205
Capital surplus	364,619	364,619
Accumulated other comprehensive income	7,740	904
Retained earnings (accumulated deficit)	(110,422)	139,854
Treasury shares, at cost (December 31, 2001 and 2000 - 448,975 shares)	(4,207)	(4,207)
T o t a l shareholders' equity	<u>263,935</u>	<u>507,375</u>
	<u>401,563</u>	<u>686,871</u>

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

**SCITEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>U.S. dollars in thousands (except per share data)</b>			
<b>REVENUES:</b>			
Sales	160,996	230,081	475,370
Service	55,320	72,888	146,814
Supplies	39,898	40,699	68,266
Total revenues	256,214	343,668	690,450
<b>COST OF REVENUES:</b>			
Cost of sales	77,190	118,322	242,442
Cost of service	54,142	61,751	118,365
Cost of supplies	16,221	18,535	35,908
Total cost of revenues	147,553	198,608	396,715
<b>GROSS PROFIT</b>	108,661	145,060	293,735
<b>RESEARCH AND DEVELOPMENT COSTS - net</b>	25,471	38,492	65,522
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	71,330	87,830	167,248
<b>AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS</b>	11,988	10,617	11,393
<b>WRITE-DOWN OF INTANGIBLE ASSETS</b>	14,986		
<b>RESTRUCTURING CHARGES</b>	1,719		
<b>OPERATING INCOME (LOSS)</b>	(16,833)	8,121	49,572
<b>FINANCIAL INCOME (EXPENSES) - net</b>	(2,889)	1,404	3,432
<b>WRITE-DOWN OF INVESTMENT IN ASSOCIATED COMPANY</b>	(149,704)		
<b>OTHER INCOME (LOSS) - net</b>	(13,034)	199,411	1,221
<b>INCOME (LOSS) BEFORE TAXES ON INCOME</b>	(182,460)	208,936	54,225
<b>TAXES ON INCOME</b>	3,054	34,139	9,180
<b>SHARE IN LOSSES OF ASSOCIATED COMPANIES - net</b>	(64,762)	(79,594)	(21,481)
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	(250,276)	95,203	23,564
<b>INCOME FROM DISCONTINUED OPERATIONS - disposal of assets</b>		1,097	6,950
<b>CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE AT THE BEGINNING OF THE YEAR</b>		(20,609)	
<b>NET INCOME (LOSS)</b>	(250,276)	75,691	30,514
<b>EARNINGS (LOSS) PER SHARE ("EPS") - BASIC:</b>			
Continuing operations	\$(5.82)	\$2.22	\$0.55
Discontinued operations		\$0.03	\$0.16
Cumulative effect of an accounting change		\$(0.48)	
	\$(5.82)	\$1.77	\$0.71
<b>EARNINGS (LOSS) PER SHARE ("EPS") - DILUTED:</b>			
Continuing operations	\$(5.82)	\$2.20	\$0.55
Discontinued operations		\$0.03	\$0.16
Cumulative effect of an accounting change		\$(0.48)	
	\$(5.82)	\$1.75	\$0.71
<b>WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EPS (in thousands):</b>			
Basic	43,018	42,847	42,661
Diluted	43,018	43,299	42,983

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

**SCITEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital	Capital surplus	Accumulated other comprehensive income	Retained Earnings (accumulated deficit)	Treasury shares	Total shareholders' equity
	U.S. dollars in thousands					
<b>BALANCE AT JANUARY 1, 1999</b>	6,194	360,316	1,064	33,649		401,223
<b>CHANGES DURING THE YEAR ENDED DECEMBER 31, 1999:</b>						
Net income				30,514		30,514
Other comprehensive income - currency translation adjustments			469			469
Total comprehensive income						<u>30,983</u>
Surplus arising from issuance of shares by a development-stage of an associated company		283				283
Employee stock options exercised	2	894				896
Surplus arising from employee stock options, net of elimination of surplus in respect of employee stock options due to forfeiture		26				26
Purchase of treasury stock					(5,524)	(5,524)
<b>BALANCE AT DECEMBER 31, 1999</b>	<u>6,196</u>	<u>361,519</u>	<u>1,533</u>	<u>64,163</u>	<u>(5,524)</u>	<u>427,887</u>
<b>CHANGES DURING THE YEAR ENDED DECEMBER 31, 2000:</b>						
Net income				75,691		75,691
Other comprehensive loss - currency translation adjustments			(629)			(629)
Total comprehensive income						<u>75,062</u>
Employee stock options exercised	9	3,084			1,317	4,410
Surplus arising from employee stock options, net of elimination of surplus in respect of employee stock options due to forfeiture		16				16
<b>BALANCE AT DECEMBER 31, 2000</b>	<u>6,205</u>	<u>364,619</u>	<u>904</u>	<u>139,854</u>	<u>(4,207)</u>	<u>507,375</u>
<b>CHANGES DURING THE YEAR ENDED DECEMBER 31, 2001:</b>						
Net loss				(250,276)		(250,276)
Other comprehensive income:						
Currency translation adjustments, net of reclassification for realized loss amounting to \$ 34,000			(306)			(306)
Unrealized gains on available-for-sale securities			7,342			7,342
Losses on derivative instruments			(200)			(200)
Total comprehensive loss						<u>(243,440)</u>
<b>BALANCE AT DECEMBER 31, 2001</b>	<u><u>6,205</u></u>	<u><u>364,619</u></u>	<u><u>7,740</u></u>	<u><u>(110,422)</u></u>	<u><u>(4,207)</u></u>	<u><u>263,935</u></u>

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

**SCITEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>U.S. dollars in thousands</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	(250,276)	75,691	30,514
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Cumulative effect of an accounting change		20,609	
Share in losses of associated companies - net	64,762	79,594	21,481
Depreciation and amortization	40,714	30,292	39,386
Restructuring charges	1,719		
Loss (gain) from disposal of fixed assets	117	84	(67)
Loss from change in percentage of holding in an associated company	4,408	3,302	
Write-off and write-down of investee companies	5,477		
Loss from sale of investments in an associated company	6,041		
Compensation resulting from employee stock options - net		16	26
Interest on long-term note payable	944	708	
Deferred income taxes - net	(976)	18,762	(15,571)
Write-down of investment in an associated company	149,704		
Income from discontinued operations		(1,097)	(6,950)
Gain on net assets of operations sold, see note 1b		(201,821)	
Decrease in short-term investments	6,994	23,113	455
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivables	(9,100)	3,659	(39,749)
Increase (decrease) in accounts payable and accruals	(47,191)	3,412	35,632
Increase in inventories	(9,877)	(10,659)	(3,540)
Other items - net	(248)	225	
Net cash provided by (used in) operating activities	<u>(36,788)</u>	<u>45,890</u>	<u>61,617</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of operations and assets consolidated for the first time *	(2,860)		
Decrease in cash in respect of operations sold **		(36,661)	
Purchase of fixed assets	(15,469)	(15,904)	(30,205)
Proceeds from sale of fixed assets	3,490	888	1,859
Proceeds from sale of other investment		1,337	
Proceeds from sale of an investment in an associated company	76,071		
Purchase of intangible assets	(5,123)	(13,480)	(5,828)
Investment in associated companies and other investments	(6,138)	(26,154)	(21,914)
Net cash provided by (used in) investing activities	<u>49,971</u>	<u>(89,974)</u>	<u>(56,088)</u>
Subtotal - forward	<u>13,183</u>	<u>(44,084)</u>	<u>5,529</u>

**SCITEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>U.S. dollars in thousands</b>		
Subtotal - brought forward	13,183	(44,084)	5,529
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Employee stock options exercised and paid		4,410	896
Increase in long-term liabilities	5,500	18,975	466
Discharge of long-term liabilities	(2,000)		
Increase (decrease) in short-term bank credit and loans - net	6,341	10,008	(2,028)
Purchase of treasury shares			(5,524)
	9,841	33,393	(6,190)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	23,024	(10,691)	(661)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	38,568	49,259	49,920
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	61,592	38,568	49,259
* Acquisition of operating and assets consolidated for the first time:			
Assets at the date of acquisition:			
Inventories	(361)		
Fixed assets - net	(585)		
Goodwill and other intangible assets arising on acquisition	(1,914)		
Cash paid	(2,860)		
** Operations sold on date of the transaction:			
Working capital (excluding cash and cash equivalents)		117,963	
Investments and other non-current assets		137	
Fixed assets - net		44,034	
Other assets - net		596	
Investment in associated company		(416,333)	
Issuance of note payable		15,927	
Realized capital surplus		(806)	
Gain from the transaction		201,821	
		(36,661)	
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid	604	807	396
Income taxes paid	20,445	3,954	1,115

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

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - GENERAL:

##### a. Nature of operations

Scitex Corporation Ltd. (the "Company") is an Israeli corporation which, together with its wholly owned subsidiaries, operates in one business segment - designing, manufacturing and marketing of digital systems for the digital printing and digital imaging markets.

##### b. The acquisition of Creo shares and the disposition of the Digital PrePrint Business:

- 1) On April 4, 2000, the Company sold substantially all of the assets, liabilities and operations related to its Digital PrePrint ("DPP") Business, including most of the distribution channels that served the Company, to Creo Products, Inc. ("Creo") in exchange for approximately 28.7% of Creo's outstanding shares. As part of the transaction, the Company issued to Creo a note of \$ 18,760,000 (see note 13e).

The transaction was accounted for at fair value, based on the market value of Creo's shares, which are traded on NASDAQ and on the Toronto Stock Exchange, after a 9% discount on the market value of the shares issued. Such discount took into consideration the trading restrictions on the shares held by the Company, resulting from a five-year standstill agreement, which, amongst other things, includes restrictions on acquiring additional Creo shares, as well as transfer and other restrictions.

As a result of the transaction, the Company recorded a gain of \$ 201.8 million after deduction of \$ 9.6 million - transaction costs, which is included in the 2000 statement of operations under "Other income - net".

The acquisition of Creo was accounted for under the purchase method. An amount of \$ 23.9 million of the total acquisition cost was attributed to in-process research and development ("IPR&D") that was in various stages of development, had not reached technological feasibility and had no alternative use. The \$ 23.9 million was expensed upon acquisition to the statements of operations under "share in losses of associated companies". The amount attributed to IPR&D was determined using the "income approach". The income approach reflects the present value of the net operating cash flows generated by such research and development projects, the relative risk associated with such projects and an appropriate discount rate. The remaining purchase price was allocated to tangible assets and intangible assets, including goodwill of \$ 245 million.

- 2) In December 2001, the Company sold 7,000,000 of the 13,250,000 Creo shares it held. As of December 31, 2001 the company holds approximately 12.7% of Creo's shares and the investment is classified as available-for-sale securities (see also note 4b(3)).

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 1 - GENERAL** (continued):

- 3) The disposition of the DPP business impacts the comparability of the company's financial statements. Below are certain data included in the financial statements relating to the DPP business prior to its disposition:

Statements of operations data (unaudited):

	<b>Three months ended March 31, 2000</b>	<b>Year ended December 31, 1999</b>
	<b>\$ in millions (except per share data)</b>	
Revenues	<u>113</u>	<u>492</u>
Gross profit	<u>46</u>	<u>201</u>
Operating income	<u>5</u>	<u>40</u>
Income before cumulative effect of an accounting change	<u>1</u>	<u>33</u>
Cumulative effect of an accounting change	<u>(14)</u>	
Net income (loss)	<u>(13)</u>	<u>33</u>
Earnings (loss) per share - basic and diluted:		
Income before cumulative effect of an accounting change	\$0.03	\$0.76
Cumulative effect of an accounting change	<u>\$(0.33)</u>	
	<u>\$(0.30)</u>	<u>\$0.76</u>

Financial position data (unaudited):

	<b>March 31, 2000</b>	<b>December 31, 1999</b>
	<b>\$ in millions</b>	
Current assets	<u>280</u>	<u>294</u>
Non-current assets	<u>47</u>	<u>51</u>
Current liabilities	<u>118</u>	<u>113</u>

- 4) As to the Company's investment in Creo, and its share in Creo's results of operations, see notes 4 and 5.

**SCITEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

The significant accounting policies, applied on a consistent basis except for the change in the method of accounting for certain revenues, as explained in n below, are as follows:

**a. General:**

1) 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 a certain investee company in which an investee company has an equity investment (see also note 4b), 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 “Foreign Currency Translation” of the Financial Accounting Standards Board of the United States (“FASB”). The resulting aggregate translation adjustments are presented under shareholders’ equity, in the item “accumulated other comprehensive income”.

2) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3) Accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

**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. Unrealized profits from intercompany sales have also been eliminated.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

##### **c. Cash equivalents**

The Company and its subsidiaries consider all highly liquid investments, with an original maturity of three months or less at time of investment, that are not restricted as to withdrawal or use, to be cash equivalents.

##### **d. Investments in marketable securities**

Marketable securities, classified as “trading securities” or “available-for-sale securities”, are included under “short-term investments” and “other investments and non-current assets”, respectively. Trading securities are carried at market value, and the changes in value are carried to the statement of income as “financial income (expenses) - net”. Available-for-sale securities are carried at market value with unrealized gains and losses reported as a separate component of “other comprehensive income (loss)”.

At December 31, 2001 the available-for-sale securities consisted of an investment in shares. The fair market value, amortized cost and unrealized holding gains at year-end were \$ 80,687,000, \$ 73,345,000 and \$ 7,342,000, respectively. The Company did not have available-for-sale securities at December 31, 2000.

##### **e. Inventories**

Inventories are valued at the lower of cost or market. Cost is determined as follows:

Raw-materials - on the moving average basis.

Finished products and products in process - on basis of production costs:

Raw materials - on the moving average basis.

Labor and overhead component - actual manufacturing costs.

##### **f. Investments in associated companies**

Associated companies are companies over which significant influence is exercised and the Company is entitled to vote 20% or more of the voting shares, but which are not consolidated subsidiaries, and are accounted for by the equity method, net of write-down for decrease in value which is not of a temporary nature. The excess of cost of investments in associated companies over the Company's share in their net assets at date of acquisition (“excess of cost of investment”) represents amounts attributed to specific assets, including know-how, technology and IPR&D, and an amount not attributed to specific assets (goodwill). The excess of cost of investment is amortized over a period of 5-8 years (mainly 8 years), commencing in the year of acquisition, excluding IPR&D, which is expensed immediately upon acquisition.

##### **g. Other investments**

These investments are carried at cost, net of write-down for decrease in value which is not of a temporary nature.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

##### **h. Property, plant and equipment**

Property, plant and equipment are carried at cost and are depreciated by the straight-line method over their estimated useful life.

Annual rates of depreciation are as follows:

	<u>%</u>
Machinery and equipment	10-33 (mainly 20)
Building	2
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.

##### **i. Goodwill and other intangible assets**

Goodwill in subsidiaries, representing the excess of cost of investments in subsidiaries acquired over the fair value of net assets at acquisition, is amortized, by the straight-line method, over a period of 7-15 years, see also u below.

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).

These intangible assets are presented net of write-down in value, which is not a temporary nature.

##### **j. Impairment of long-lived assets**

FAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", requires that long-lived assets, identifiable intangibles and goodwill related to those assets to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 121, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized based on the excess of the carrying amounts over the face value of those assets.

##### **k. Deferred income taxes:**

- 1) Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period. Valuation allowances are provided for deferred tax assets when it is more likely than not that all or a portion of the deferred tax assets will not be realized.
- 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.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 3) The Company intends to permanently reinvest the amounts of tax-exempt income and does not intend to cause dividend distribution from such income (see note 11a). Therefore, no deferred taxes have been provided in respect of such tax-exempt income.

#### **i. Comprehensive income**

In addition to net income (loss), other comprehensive income (loss) includes unrealized gain on available-for-sale securities, currency translation losses of non-dollar currency financial statements of an associated company and losses on derivative instruments.

#### **m. Treasury shares**

Company shares held by the Company, are presented as a reduction of shareholders' equity, at their cost to the Company. Gains and losses on sale of these shares are carried to "capital surplus".

#### **n. Revenue recognition:**

- 1) Revenues from sales of products and supplies are recognized when an arrangement (usually in the form of purchase order) exists, delivery has occurred and title passed to the customer, the Company's price to the customer is fixed or determinable and collectability is reasonably assured. With respect to products with installation requirements, revenue is recognized as follows: 1) if the installation is not considered to be a separate earnings process - revenue is recognized when all of the above criteria are met and installation is completed; 2) if the installation is considered to be a separate earnings process - the revenues relating to the two elements (product and installation) are un-bundled based on the two elements' relative fair value: revenue from the product element is recognized when all of the above criteria are met and revenue from the installation element is recognized when installation is completed.

Sales contracts with distributors stipulate fixed prices and current payment terms and are not subject to the distributor's resale or any other contingencies. Accordingly, sales of finished products to distributors are recognized as revenue upon delivery and after title passes to distributors.

Cost of sales includes an estimate of costs associated with warranty.

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

Effective January 1, 2000, the Company changed its method of accounting for revenue recognition to comply with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101).

The adoption of SAB 101 resulted in a change to the Company's revenue recognition policy, regarding installation, which was treated as a change in accounting principle and its cumulative effect as of January 1, 2000 amounted to \$ 20,609,000. The effect of the change on the reported 2000 revenues and cost of sales was an increase of \$ 44,162,000 and \$ 23,553,000, respectively.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

**o. Research and development costs**

Research and development costs are charged to income as incurred. Royalty-bearing grants received from governments for approved projects are recognized as a reduction of expenses as the related costs are incurred.

**p. Advertising**

These costs are expensed as incurred.

**q. Allowance for doubtful accounts**

The allowance for doubtful accounts is determined as a percentage of specific debts doubtful of collection.

**r. Earnings (loss) per share ("EPS")**

Basic EPS are computed based on the weighted average number of shares outstanding during each year excluding the treasury stock. 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 2001 and 2000, such effect was not included since it would have been anti-dilutive). In addition, dilutive EPS does not reflect options granted by subsidiaries to be exercised to their shares, since their effect would have been anti-dilutive.

**s. Derivatives and hedging activities**

The Company has adopted FAS 133 as of January 1, 2001. FAS-133, as amended, establishes accounting and reporting standards for derivative and for hedging activities. Under FAS 133, all derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative, for accounting purposes, as: (1) hedging instrument, or (2) non-hedging instrument.

For derivative financial instruments that are designated and qualify as a cash flow hedge, the effective portions of changes in fair value of the derivative are recorded in other comprehensive income, and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in earnings.

**t. Stock based compensation**

The Company and its subsidiaries account for employee stock based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. In accordance with FAS 123 "Accounting for Stock-Based Compensation" the Company discloses pro-forma data assuming the Company and its subsidiaries had accounted for employee stock option grants using the fair value based method defined in FAS 123.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

##### u. Recently issued accounting pronouncements

- In July 2001, the FASB issued FAS No. 141, "Business Combinations", and FAS No. 142, "Goodwill and Other Intangible Assets" which, as applicable to the Company, are effective as from the year 2002.

FAS 141 supersedes APB 16, "Business Combinations". The most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) establishing specific criteria for the recognition of intangible assets separately from goodwill and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

FAS 142 supersedes APB 17, "Intangible Assets". The most significant changes made by FAS 142 are: (1) goodwill and indefinite intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with definite lives will no longer be limited to forty years. In addition, FAS 142 contains certain transitional provisions, which may effect the classification of intangible assets as well as the balance of goodwill. The provisions of FAS 141 are effective for acquisitions consummated after June 30, 2001. The provisions of FAS 142 are effective for fiscal years beginning after December 15, 2001 (fiscal year 2002 for the Company). Under the implementation of FAS 141 and FAS 142, the Company anticipates goodwill at the amount of approximately \$ 21 million to be no longer amortized on a systematic basis and to be subject, at least annually, to an impairment test.

In the year ended December 31, 2001, the Company incurs amortization expenses related to goodwill of approximately \$ 3.6 million.

As to an acquisition that occurred after June 30, 2001 (see also note 4c.), no goodwill was created.

The Company is in the process of evaluating the useful lives of existing intangible assets. It has not determined whether any changes to those useful lives are going to have a material impact on the results of its operations.
- In July 2001, the FASB issued of FAS No. 143, "Accounting for Asset Retirement Obligations." FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including the timing of liability recognition and initial measurement of the liability. FAS 143 requires that an asset retirement cost be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. FAS 143 is effective for fiscal years beginning after June 15, 2002 (January 1, 2003 for the Company).

The Company is currently evaluating the potential effect, if any, that the adoption of this standard may have on its consolidated financial statements.
- In August 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal periods beginning after December 15, 2001 (January 1, 2002 for the Company) and interim periods within those years. FAS 144, which supersedes FAS 121, establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. The Company is currently evaluating the potential effect, if any, that the adoption of this standard may have on its consolidated financial statements.

##### v. Reclassifications

Certain comparative figures have been reclassified to conform to the current presentation.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 3 - ACQUISITIONS OF BUSINESSES:**

- a. In March 2001, a subsidiary acquired the ink technology, other assets and operations from the Techno Ink manufacturing (PTY) Ltd. ("Tech Ink") for an aggregate consideration of \$ 2,860,000. The technology was capitalized and is amortized over 6 years. The agreement provides for additional payments to Tech Ink of up to a maximum of approximately \$ 8,360,000, based on the achievement of specified financial targets, such as revenues and operating income from the subsidiary's products related to the acquired technology, during the period from 2001 to 2006. As of December 31, 2001, no liability was incurred due to this agreement.
- b. 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.

The acquisition was accounted for by the purchase method. An amount of \$ 44,264,000 of the total acquisition cost was attributed to in-process research and development that was in various stages of development, had not reached technological feasibility and had no alternative use. This amount was expensed upon acquisition in accordance with generally accepted accounting principles. An amount of \$ 16,645,000 was attributed to goodwill and other intangible assets and is being amortized over their estimated useful lives. As to an impairment charge, see note 7.

- c. In October 1998, a subsidiary acquired the Superwide Format technology and other intangible assets from the Matan group of companies ("Matan") for an aggregate consideration of \$ 12,247,000. The agreement provided for additional payments to Matan of up to a maximum of \$ 14.5 million, based on the achievement of specified financial targets, such as revenues and operating income from Company's products related to the acquired technology, during the period from 1999 to 2004; During 2001 the final payment was made, see also note 13c. As to an impairment charge, see note 7.

**NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES:**

- a. Presented in the balance sheets as follows:

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
Among investments:		
Investment in Creo *		370,036
Investments in other associated companies	4,030	6,138
**		
Among accrued and other liabilities		(438)
	<u>4,030</u>	<u>375,736</u>

\* See note 1b and (b) below.

\*\* See (c) below.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):**

**b. Creo:**

1. Creo draws up its financial statements as of September 30 of each year; accordingly, the financial position and the results of operations of Creo have been included in the Company's consolidated financial statements on a three-month time lag. The Company's share in the losses of Creo in 2001 and 2000 amounts to \$ 60,183,000 and \$ 44,120,000, respectively (2000 - included an amount of \$ 23,925,000 from IPR&D), see also note 1b(1).

Summarized data from Creo's financial statements as of September 30, 2001 and 2000, is as follows:

Financial position data:

	<b>September 30</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
Current assets	338,305	421,417
Non-current assets	149,402	523,153
Current liabilities	186,486	234,974
Non-current liabilities	2,556	22,986

Statements of operations data:

	<b>Year ended September 30, 2001</b>	<b>Six months ended September 30, 2000</b>
	<b>Audited</b>	<b>Unaudited</b>
	<b>\$ in thousands</b>	
Revenues	656,527	335,879
Gross profit	278,351	148,496
Operating income (loss)	15,279	(70,951)
Write-off of goodwill and other intangible assets	265,700	
Net loss	(414,755)	(57,451)

2. During the second quarter of 2001, following a periodic review, the Company reduced the carrying value of its investment in Creo by the amount of \$ 149,704,000. This write-down took into consideration Creo's results for the period and its future outlook, as reported by the management of Creo.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):

3. In December 2001, the Company sold 7,000,000 of the 13,250,000 Creo shares it held, for proceeds of approximately \$ 76,071,000 (net of transaction costs). The loss from this transaction, which amounted to \$ 6,041,000, is included in the statement of operations under "other income (loss) - net".

Subsequent to this sale, the Company holds approximately 12.7% of Creo's shares, and its representation on the board of directors of Creo has decreased to one director out of nine. Since the Company no longer exercises significant influence, the investment in Creo is classified as "available-for-sale securities", and is presented in the balance sheets as of December 31, 2001 among "other investments and non-current assets".

Creo's stock is currently traded on NASDAQ and on Toronto Stock Exchange. On December 31, 2001, Creo's common stock closed at approximately \$ 12.90 per share.

- c. This item includes an investment in Aprion Digital Ltd. ("Aprion"), which was formed by the Company and other investors during 1999. Upon the formation of Aprion, the Company transferred to Aprion the activity of its Advanced Printing Products Division, in consideration for Aprion shares, warrants and convertible note in the amount of \$ 20 million. The Company assigned to Aprion's shares the carrying value of the assets transferred. The note, which is for 10 years, was recorded at no value in the Company's accounts, due to the uncertainty regarding the collectibility thereof, since Aprion was a development stage company. In addition, the Company received \$ 3.0 million in consideration of a license granted to use technology and patents developed or registered by the Company and \$ 1.5 million participation in the Company's research and development expenses. Those amounts were credited to income in 1999.

In the second quarter of 2001, the Company exercised all of the warrants that were granted by Aprion, in consideration for \$ 2.5 million, and in the third quarter converted the note into Aprion shares. The excess of cost of investments over the Company's share in Aprion's net assets at dates of transactions, in total amount of approximately \$ 5 million, was attributed to technology to be amortized over five years.

As of December 31, 2001, the Company's ownership interest in Aprion is approximately 43%, and approximately 34% on a fully diluted basis. The balance of the investment, accounted for under the equity method, is zero.

- d. The Company has provided guarantees for bank credit received by a joint venture partnership, which is in the process of being terminated - \$ 16.5 million at December 31, 2001.

A provision has been included in "accrued and other liabilities" regarding with the termination of this partnership.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 - OTHER INVESTMENTS AND NON-CURRENT ASSETS:**

**a. Composed as follows:**

	<b>December 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
Other investments <sup>(b)</sup>	94,600	16,998
Non-current assets	233	44
	<u>94,833</u>	<u>17,042</u>

- b.** The balance of other investments represents investments in companies operating in the digital printing and digital imaging industry, in which the Company does not exercise significant influence. The balance includes an investment of \$ 80,687,000 in Creo shares, which are available-for-sale securities (see also note 2d.) and are stated at market value. The remaining investments are carried at cost, net of write-down for decrease in value, which is not of a temporary nature (see also note 2j).

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT**

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

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
Machinery and equipment	44,258	40,354
Building (including land)	383	
Leasehold improvements	17,608	16,481
Office furniture and equipment	24,903	21,097
Motor vehicles	71	115
	<u>87,223</u>	<u>78,047</u>
Less - accumulated depreciation and amortization	<u>(45,569)</u>	<u>(34,600)</u>
	<u>41,654</u>	<u>43,447</u>

Depreciation and amortization of property, plant and equipment totaled \$ 13,740,000, \$ 12,812,000 and \$ 28,000,000 in 2001, 2000 and 1999, respectively.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
Goodwill in subsidiaries and acquired goodwill	42,920	41,212
Acquired technology and other intangible assets	<u>*57,482</u>	<u>52,153</u>
	100,402	93,365
L e s s - accumulated amortization	<u>(65,140)</u>	<u>(38,166)</u>
	<u>35,262</u>	<u>55,199</u>

Amortization expense totaled \$ 11,988,000, \$ 10,617,000 and \$ 11,393,000 in 2001, 2000 and 1999, respectively.

In 2001 the financial statements include a one-time charge due to impairment of technology, know-how and goodwill in a subsidiary, in the amount of \$ 14,986,000.

- \* In January 2001, a subsidiary acquired the intellectual property related to the manufacturing of inks compatible with its machines from Magic Inks B.V. for consideration of \$ 2,887,000. This intangible asset is amortized over 6 years.

**NOTE 8 - 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 is 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 the two major shareholders of the Company), for which the Company and its Israeli subsidiaries make monthly payments.

The Company records the long-term obligation as if it was payable at each balance sheet date on a discounted basis.

- b.** The U.S. subsidiaries offer 401(k) matching plans to all eligible employees.
- c.** Substantially all of the European subsidiaries make contributions to pension plans administered by insurance companies.
- d.** Severance pay, pension and defined contribution plan expenses totaled \$ 2,908,000, \$ 2,941,000 and \$ 9,587,000 in 2001, 2000 and 1999, respectively.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES:**

**a. Commitments:**

1) Royalty commitments:

- (a) The Company is committed to pay royalties of 3%-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 (dollar linked), plus annual interest based on the Libor, accruing from January 1, 1999. 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, 2001, the maximum contingent royalty payable is approximately \$ 3.1 million.

- (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) Operating leases

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 the two major shareholders of the Company, see also 3) below.

Minimum lease payments of the Company and its subsidiaries under the above leases, at rates in effect on December 31, 2001, are as follows:

	<u>\$ in thousands</u>
Year ending December 31:	
2002	5,070
2003	4,298
2004	3,670
2005	3,334
2006	2,839
2007 and thereafter	<u>17,022</u>
	<u>36,233</u>

The rental payments for the premises in Israel, which constitute approximately 11% 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 \$ 5,526,000, \$ 6,103,000 and \$ 11,376,000 in 2001, 2000 and 1999, respectively.

- 3) Commencing November 1, 2001, the Company's headquarters are located on the premises of one of its major shareholders. The Company obtains the services of certain executives and other staff as well as certain administrative services from the shareholder, for which the Company pays amounts based on formulas determined in the agreement between the Company and the shareholder.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

##### **b. Contingent liabilities**

- 1) 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.
- 2) As to contingent purchase price of other intangible assets, see note 3a.

#### NOTE 10 - SHAREHOLDERS' EQUITY:

##### **a. Share capital:**

- 1) The Company's shares are traded on NASDAQ and, effective from January 7, 2001, on the Tel Aviv Stock Exchange (TASE) according to the dual listing regulation.

On December 31, 2001 the Company's share closed on NASDAQ and Tel Aviv Stock Exchange at approximately \$ 4.55 and \$ 4.79, respectively.

- 2) The number of shares stated as issued and outstanding - 43,467,388 shares at December 31, 2001 and 2000 - includes 448,975 repurchased by the Company (treasury shares, see note 2m) and held by a trustee for the benefit of employees within the framework of the Company's share option plans. These shares, until purchased by employees pursuant to a share option plan, bear no voting rights or rights to cash dividends.

##### **b. Share incentive and stock option plans:**

- 1) On December 31, 2001, the annual general meeting of shareholders of the Company approved the adoption of a new share option plan – the Scitex 2001 Stock Option Plan – that permits the grant of options to officers, employees, directors, consultants and contractors of the Company, its subsidiaries and controlled entities for the purchase of up to an aggregate of 750,000 shares of the Company. Option awards may be granted under this plan until November 5, 2011. 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 of the Company. At December 31, 2001, no options had been granted under the 2001 plan.
- 2) The 2001 plan replaced two earlier share 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 its Israeli subsidiaries, and the Scitex International Key Employee Stock Option Plan 1991 (As Amended, 1995), for officers and other key employees of non-Israeli subsidiaries. These plans expired in September 2001, except with respect to outstanding options granted under such plans. The options granted under such plans generally vested ratably over a period of 3-4 years. The maximum term of an option could not exceed ten years. Each option

can be exercised to purchase one share having the same rights as the other ordinary shares.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY** (continued):

- 3) The grant of options to Israel residents under the Company's plans 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.
- 4) The options granted under the plans are exercisable for the purchase of shares as follows:

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>Number of options</b>	
At balance sheet date	1,425,617	1,729,609
During the first year thereafter	158,936	206,914
During the second year thereafter	131,316	173,728
During the third year thereafter	8,334	136,214
	<u>1,724,203</u>	<u>2,246,465</u>

- 5) A summary of the status of the Company's plans at December 31, 2001, 2000 and 1999, and changes during the years ended on those dates, is presented below:

	<b>Year ended December 31</b>					
	<b>2001</b>		<b>2000</b>		<b>1999</b>	
	<b>Number</b>	<b>Weighted average exercise price</b>	<b>Number</b>	<b>Weighted average exercise price</b>	<b>Number</b>	<b>Weighted average exercise price</b>
		<b>\$</b>		<b>\$</b>		<b>\$</b>
Options outstanding at beginning of year	2,246,465	10.06	3,047,000	9.83	3,231,268	10.10
Changes during the year:						
Granted at fair value	25,000	8.18	391,000	11.23	264,000	10.94
Exercised and paid			(469,707)	9.18	(99,354)	9.12
Forfeited and canceled	(547,262)	9.59	*(721,828)	10.32	(348,914)	12.00
Options outstanding at end of year	<u>1,724,203</u>	10.18	<u>2,246,465</u>	10.06	<u>3,047,000</u>	9.83
Options exercisable at end of year	<u>1,425,617</u>	10.09	<u>1,729,609</u>	9.80	<u>1,667,128</u>	9.60
Options available for future awards	<u>750,000</u>		<u>1,293,240</u>		<u>962,412</u>	

\* 357,375 options forfeited during 2000 relate to employees transferred to Creo together with the DPP business, see note 1b.

The weighted average fair value of options granted during 2001, 2000 and 1999 is \$ 2.76, \$ 4.80 and \$ 3.32, respectively.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY** (continued):

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		
	2001	2000	1999
Dividend yield per share - in dollars	-,-	-,-	-,-
Expected volatility	58%	57%	40%
Risk-free interest rate	4.0%	6.0%	6.2%
Expected life - in years	2.00	3.00	2.62

- 6) The following table summarizes information about options under the Company's plans outstanding at December 31, 2001:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2001	Weighted average exercise price
		Years	\$		\$
\$ 8.00 to 8.99	25,000	9.0	8.18		
9.00 to 9.99	784,586	3.8	9.06	784,586	9.06
10.00 to 10.99	338,750	8.3	10.64	121,039	10.60
11.00 to 11.99	517,667	3.7	11.39	463,042	11.38
12.00 to 12.99	50,200	4.7	12.07	48,950	12.05
16.00	8,000	3.3	16.00	8,000	16.00
8.00 to 16.00	<u>1,724,203</u>	4.7	10.18	<u>1,425,617</u>	10.09

- 7) Options to employees were granted at exercise prices which were equal to or above the fair value of the shares at the date of the grant, except for options granted in 1997, 50,000 options at an exercise price of \$9.06 per option and 50,000 options granted at an exercise price of \$11.00 per option, vesting over a three year period commencing in 1998 and exercisable until January 2006. The market price at the date of the award was \$12.00 per share. The weighted fair value of each option granted was \$ 5.02.
- 8) An award in 1999, whereby 50% of 300,000 options awarded in earlier years to a related party, with an exercise price of \$ 14.75 per option, were re-priced to an exercise price of \$ 11.69 per option (the then market price per share), accompanied by a waiver of the remaining 50%. Such options were exercisable from 1999 and are exercisable until June 2004. The fair value of each option granted was \$ 3.21.
- 9) Options granted by a principal shareholder

In January 2000, a principal shareholder granted the then Chairman of the Board of Directors 100,000 - fully vested options, for 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.

The shares derived from the exercise of these options will be sold to the grantee from the shares held by the principal shareholder.

As of December 31, 2001, none of the mentioned options have been exercised.

## SCITEX CORPORATION LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 10 - SHAREHOLDERS' EQUITY (continued):

##### 10) Stock option plans of subsidiaries

- a) On February 7, 2000, a subsidiary's Board of Directors approved an employee share option plan (the "Subsidiary Plan"). Pursuant to the Subsidiary Plan, 2,600,000 ordinary shares of the subsidiary are reserved for issuance upon the exercise of 2,600,000 options to be granted to some of the subsidiary's employees. The options vest as follows: 33.33% after first year, another 33.33% after the second year and another 33.33% after the third year starting from the date of commencement of employment of each employee, or the grant date, as determined by the subsidiary's Board of Directors, whichever is later, provided the employee is still in the subsidiary's employ. The rights of ordinary shares obtained upon exercise of the options will be identical to those of the other ordinary shares of the subsidiary. Any option not exercised within 7 years of grant date will expire.

Some of the options under the Subsidiary Plan are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Among other things, the Ordinance provides that the subsidiary will 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.

During the year ended December 31, 2000, the subsidiary granted 2,254,000 options to employees under the Subsidiary's Plan, at an exercise price per share of \$ 6.50. During 2001, the subsidiary granted additional 415,000 options in identical conditions to those granted in 2000, and 258,000 options were forfeited. As of December 31, 2001, all these options are with a weighted average contractual life of 5.8 years, and approximately 665,000 of them is exercisable.

The weighted average fair value of options granted by the subsidiary during 2001 is \$2.44. 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: dividend yield per share is nil, expected volatility of 50%, risk-free interest rate of 4.0%, expected life of 3 years.

If all options are exercised, the Company's share in the subsidiary will decrease from 100% to 88%.

- b) On December 6, 2001, the Board of Directors of a United States subsidiary approved an employee share option plan (the "US Subsidiary Plan"). Pursuant to the US Subsidiary Plan, 2,600,000 shares of Common Stock of the subsidiary are reserved for issuance upon the exercise of 2,600,000 options to be granted to some of the subsidiary's employees.

As at December 31, 2001, the subsidiary had granted 957,000 options to employees under the US Subsidiary's Plan, at an exercise price per share of \$ 6.00. The options vest as follows: 25% one year from the grant date and thereafter 6.25% on the last day of every third calendar month. Any option not exercised within 10 years of grant date will expire.

The weighted fair value of options granted by the subsidiary during 2001 is \$ 3.22. 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: dividend yield per share is nil, expected volatility of 50%, risk-free interest rate of 5.0%, expected life of 10 years. As of December 31, 2001 none of the options is exercisable.

If all options are exercised, the Company's share in the subsidiary will decrease from 100% to 95%.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY** (continued):

11) Accounting treatment of share incentive and stock option plans

Stock-based compensation arrangements are accounted for in accordance with the provisions of APB No. 25 - "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, the Company also applies FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation - an interpretation of APB No. 25" ("FIN 44"), providing new accounting rules for stock-based compensation under APB 25. In accordance with FIN 44, the re-priced options (as described in (8) above) are accounted for under variable plan accounting. Under this method of accounting, increases in the fair market value of the underlying shares result in non-cash compensation charges to the statement of operations. At December 31, 2001 and 2000, the market price of the underlying shares was below \$ 11.69 (the exercise price of the options), thus, no compensation cost has been charged with respect to these options. Future periods may reflect charges or credits depending on the fair market price of the underlying shares. FAS No. 123, "Accounting for Stock-Based Compensation," established a fair value based method of accounting for employee stock option or similar equity investment, and encourages adoption of such method for stock compensation plans. However, it also allows companies to account for these plans using the accounting treatment established by APB 25. The Company and its subsidiaries have accordingly complied with the disclosure requirements set forth in FAS 123 for companies electing to apply APB 25.

The net compensation cost for the years ended December 31, 2001, 2000 and 1999, is nil, \$ 16,000 and \$ 26,000, respectively.

Had compensation for the Company's plans together with the subsidiaries' plans and the options granted by a principal shareholder 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		
	2001	2000	1999	2001	2000	1999
	As reported			Pro-forma		
	U.S. dollars in thousands			U.S. dollars in thousands		
Net income (loss) - in thousands of dollars	<u>(250,276)</u>	<u>75,691</u>	<u>30,514</u>	<u>(254,029)</u>	<u>72,698</u>	<u>29,689</u>
Earnings (loss) per share - in dollars - basic:						
Continuing operations	(5.82)	2.22	0.55	(5.91)	2.15	0.53
Discontinued operations		0.03	0.16		0.03	0.16
Cumulative effect of an accounting change		(0.48)			(0.48)	
Net income (loss)	<u>(5.82)</u>	<u>1.77</u>	<u>0.71</u>	<u>(5.91)</u>	<u>1.70</u>	<u>0.69</u>
Earnings (loss) per share - in dollars - diluted:						
Continuing operations	(5.82)	2.20	0.55	(5.91)	2.07	0.53
Discontinued operations		0.03	0.16		0.03	0.16
Cumulative effect of an accounting change		(0.48)			(0.48)	
Net income (loss)	<u>(5.82)</u>	<u>1.75</u>	<u>0.71</u>	<u>(5.91)</u>	<u>1.62</u>	<u>0.69</u>

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY (continued):**

**c. Retained earnings**

Dividends are declared and paid in dollars (except to shareholders of record with an address in Israel, with respect to whom payment is made in Israeli currency ("NIS")).

**NOTE 11 - TAXES ON INCOME:**

**a. The Company and its Israeli subsidiary:**

- 1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereafter- the law)

By virtue of the "approved enterprise" status granted to certain production facilities under the law, the Israeli subsidiary is entitled to various tax benefits, as follows:

a) Reduced tax rates

The tax benefit period is seven years from the year in which the approved enterprise first earns taxable income. Income derived from the approved enterprise is tax exempt during the first two years of the seven year tax benefit period and is subject to a reduced tax rate of 25% during the remaining five years of benefits. The period of benefits relating to the approved enterprise will expire in the years 2009-2010.

In the event of distribution of cash dividends out of income which was tax exempt as above, the Israeli subsidiary would have to pay the 25% tax in respect of the amount distributed.

The Israeli subsidiary intends to reinvest the amounts of tax exempt income in the foreseeable future, and not to cause distribution of such dividends.

b) Accelerated depreciation

The Israeli subsidiary is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of machinery and equipment used by the approved enterprise.

c) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon the Israeli subsidiary's fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in the "approved enterprise". In the event of failure to comply with these conditions, the benefits may be cancelled and the Israeli subsidiary may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli consumer price index ("CPI") and interest.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 11 - TAXES ON INCOME** (continued):

- 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.

Paragraph 9 (f) of FAS 109, “Accounting for Income Taxes”, prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

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

The Israeli subsidiary 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 not derived from an approved enterprise

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

**b. Non-Israeli subsidiaries**

The subsidiaries are taxed under the laws of their countries of residence.

**c. Carryforward tax losses and deductions**

Carryforward tax losses and deductions of the Company and its subsidiaries, including capital losses and losses from realization of marketable securities approximated \$ 163 million at December 31, 2001. Most of the carryforward amounts will expire in 2018 - 2020.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 11 - TAXES ON INCOME** (continued):

**d. Deferred income taxes:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
Computed in respect of the following:		
Allowance for doubtful accounts and recourse provisions	1,360	1,191
Carryforward tax losses and credits	87,746	27,775
Inventories	825	639
Accrued liabilities and deferred income	15,785	14,623
Property, plant and equipment	(4,611)	(5,379)
Other	1,172	(4,802)
	<u>102,277</u>	<u>34,047</u>
L e s s - valuation allowance (attributed mainly to loss carryforwards and expenses deductible upon payment)	<u>84,545</u>	<u>17,291</u>
	<u><u>17,732</u></u>	<u><u>16,756</u></u>
Deferred income taxes are included in the balance sheets as follows:		
Current assets	20,765	27,013
Non-current assets	1,802	
Long-term liabilities	(4,835)	(10,257)
	<u>17,732</u>	<u>16,756</u>

**e. Income (loss) before taxes on income:**

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
The Company and its Israeli subsidiary	(187,906)	199,172	35,410
Non-Israeli subsidiaries	5,446	9,764	18,815
	<u>(182,460)</u>	<u>208,936</u>	<u>54,225</u>

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 11 - TAXES ON INCOME** (continued):

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

1) As follows:

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
Current:			
Israeli	3,547	14,833	
Non-Israeli	483	1,116	24,751
	<u>4,030</u>	<u>15,949</u>	<u>24,751</u>
Deferred, see d. above:			
Israeli	(1,802)	5,998	
Non-Israeli	826	12,192	(15,571)
	<u>(976)</u>	<u>18,190</u>	<u>(15,571)</u>
	<u>3,054</u>	<u>34,139</u>	<u>9,180</u>

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

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
Income (loss) before taxes on income	(182,460)	208,936	54,225
Theoretical tax expense (tax benefit) on the above amount	(65,686)	75,216	19,521
Effect of lower tax rate for "approved enterprises"		(1,926)	(7,252)
	(65,686)	73,290	12,269
Increase (decrease) in taxes resulting from different tax rates - net	130	(198)	292
Increase in taxes resulting from permanent differences	666	379	2,943
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	70,152	(38,383)	(1,709)
Increase (decrease) in taxes arising from differences between non-dollar currencies income and dollar income - net, and other*	(2,208)	(949)	(4,615)
Taxes on income in the consolidated statements of operations	<u>3,054</u>	<u>34,139</u>	<u>9,180</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 Israeli currency relative to the dollar.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 11 - TAXES ON INCOME** (continued):

**g. Tax assessments**

The Company has received final tax assessments through the 1994 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 1997 tax years, respectively.

During the fourth quarter of 2001, the Company conducted extensive negotiations with the Internal Revenue Service (IRS) with regard to the conclusion of audits of US subsidiaries for the years 1992-1996 and made an advance payment of \$20 million. The Company is expecting the final IRS position to be received in the coming few months. Provision for this matter, which is sufficient in the Company's management's opinion, is included in accrued liabilities.

**NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:**

**a. Foreign exchange risk management**

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) were utilized by the Company to reduce these risks through April 4, 2000 (with respect to the DPP operations, see note 1b). The Company did not hold or issue derivative financial instruments for trading purposes.

During 1999 and through April 4, 2000, the Company and one of its subsidiaries used foreign currency derivatives for purposes of hedging existing non-dollar assets and liabilities as well as certain firm commitments. All such derivatives were for the conversion of non-dollar currencies into dollars. The writing of options was part of a comprehensive hedging strategy and was designed to effectively swap the currencies relating to existing assets and liabilities. Each of the options written was combined with purchase of an option for the same period and the same notional amount. The term of all contracts was less than one year.

In 2000 and 1999, prior to the adoption of FAS 133, gains and losses on derivatives that were hedging existing assets or liabilities were recognized in income commensurate with the results from those assets or liabilities; balances receivable or payable in respect of such derivatives were included in the balance sheets among other accounts receivable or payable, as appropriate. Gains and losses related to derivatives that were hedging firm commitments or anticipated sales were deferred, and ultimately recognized in income as part of the measurement of the results of the underlying hedged transactions. Cash flows from derivatives were recognized in the statements of cash flows together with results from the hedged item.

Commencing 2001, a subsidiary purchases forward-exchange contracts as hedges of certain anticipated sales denominated in foreign currencies. The Company enters into these contracts to protect itself against the risk that the eventual dollar-net-cash inflows resulting from direct-foreign-export sales will be adversely affected by changes in exchange rates.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued):

Gains and losses for these forward exchange contracts are recorded in other comprehensive income until the foreign currency denominated sales transactions are recognized in earnings. Forward exchange contracts are used to hedge a portion of forecasted foreign currency denominated sales for up to 6 months in the future. Hedge ineffectiveness had no material impact on earnings for the year ended December 31, 2001. No cash flow hedges were discontinued during the year ended December 31, 2001. As of December 31, 2001, \$ 200,000 of deferred net losses on derivative instruments, accumulated in other comprehensive income are expected to be reclassified as earnings during the next six months. The notional amount of this forward exchange hedging contract for Japanese currency is \$ 3,758,000.

**b. Concentrations of credit risks**

At December 31, 2001 and 2000, the Company and its subsidiaries 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 subsidiaries' sales are made in the United States, Europe and in the Far East, 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, however, with respect of certain sales to customers in emerging economies, the Company requires letters of credit. The accounts include sufficient allowance for doubtful accounts.

**c. Fair value of financial instruments**

The financial instruments of the Company and its subsidiaries consist mainly of cash and cash equivalents, short-term investments, long-term investments, current and non-current receivables and long-term liabilities.

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 and long-term liabilities also approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:**

**Balance sheets:**

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$ in thousands</b>	
<b>a. Trade receivables</b> - net of allowance for doubtful accounts of in the amount of	<u>5,250</u>	<u>3,436</u>
<b>b. Inventories:</b>		
Components of systems and materials	14,656	13,727
Work in process	3,065	2,594
Finished products	<u>35,190</u>	<u>26,352</u>
	<u>52,911</u>	<u>42,673</u>
<b>c. Accrued and other liabilities:</b>		
Payroll and related expenses	8,438	6,421
Taxes on income, net of advances	25,530	42,319
Accrued royalties and sales commissions	2,178	1,668
Accrued payments in respect of acquired technology		4,400
Deferred revenue	6,137	5,628
Other	<u>13,521</u>	<u>43,659</u>
	<u>55,804</u>	<u>104,095</u>

**d. Lines of credit and loans from bank:**

1) Line of credit

In 2001 and 2000, a wholly-owned subsidiary of the Company entered into agreements with banks which provide for a \$ 41 million and \$ 34 million, respectively, revolving line of credit and long-term loans for working capital purposes.

Borrowings under the revolving line of credit and long-term loans bear interest of Libor + 0.6% to Libor + 1.1%. To date, the subsidiary has borrowed approximately \$ 20 million under the revolving line of credit and the long-term loan.

The revolving line of credit and the long-term loans are secured by a negative pledge and require the subsidiary to maintain certain financial and nonfinancial covenants.

2) Short-term bank credit and loans

The balance as of December 31, 2001 represents: short-term bank loans denominated in dollars and bearing interest of one month Libor + 0.6 % to Libor + 1.1 % per annum (as of December 31, 2001 – 3.16 % to 3.66 %, respectively) in the amount of \$ 20,366,000; short-term banks loans denominated in Euro and bearing interest of one month Libor + 0.6 % to Libor + 1.25 % per annum (as of December 31, 2001 – 4.0 % to 4.6 %, respectively) in the amount of \$ 6,283,000.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION** (continued):

3) Long-term bank loans:

- a) The loans are denominated in dollars, bear interest of three month Libor + 0.6 % to Libor + 1.1 % per annum (as of December 31, 2001 – 3.16 % to 3.66%, respectively) and are payable in quarterly installments.
- b) The long-term loans (net of current maturities) mature in the following years after the balance sheet dates:

	<u>2001</u>	<u>2000</u>
	<u>\$ in thousands</u>	
Second year	3,500	15,308
Third year	<u>1,000</u>	<u>1,000</u>
	<u>4,500</u>	<u>16,308</u>

**e. Note payable issued to an investee company**

The note is denominated in dollars, bears no interest, and is payable in one payment on April 4, 2003. The Company has recorded the note based on its present value as of the date of issuance, and in each balance sheet thereafter – using the interest rate which was applicable to such notes as of the date of issuance. See also note 1b.

**f. Monetary balances in non-dollar currencies** - as follows:

	<u>December 31, 2001</u>		
	<u>Unlinked Israeli currency</u>	<u>In Euro and linked to the Euro</u>	<u>Other non-dollar currencies*</u>
	<u>\$ in thousands</u>		
Assets - current	<u>818</u>	<u>21,377</u>	<u>1,547</u>
Liabilities - current	<u>6,604</u>	<u>15,108</u>	<u>1,526</u>

The above balances do not include Israeli currency balances linked to the dollar.

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):**

**Statements of operations:**

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
<b>g. Research and development costs - net:</b>			
Expenses incurred	26,470	39,694	72,622
Less - royalty-bearing participations from the Government of Israel (note 9a(1)(a))	999	1,202	7,100
	<u>25,471</u>	<u>38,492</u>	<u>65,522</u>
<b>h. Selling, general and administrative expenses:</b>			
Selling*	46,960	59,640	101,499
General and administrative**	24,370	28,190	65,749
	<u>71,330</u>	<u>87,830</u>	<u>167,248</u>
* Including:			
Related party	2,086	1,821	
Advertising costs	1,123	2,078	789
** Including:			
Related party	937	877	
Net change in allowance for doubtful accounts and direct write-off of bad debts	3,005	1,434	8,202
<b>i. Restructuring charges</b>			

Towards the end of 2001, the Company and its subsidiaries planned and implemented a restructuring plan in the form of reduction in work force and abandonment of construction in progress, and accrued expenses accordingly. The expenses include mainly severance pay and other benefits to approximately 90 employees retiring from their employ in the amount of approximately \$ 1,219,000 and the write-off of fixed assets in the amount of approximately \$500,000.

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
<b>j. Financial income (expenses) - net:</b>			
Interest income	1,463	1,443	3,464
Gain on trading marketable securities - net	136	1,496	1,284
Interest expense on long-term loans from banks	(2,382)	(678)	
Bank charges	(127)	(302)	(708)
Other (including foreign exchange transaction losses - net)	(1,979)	(555)	(608)
	<u>(2,889)</u>	<u>1,404</u>	<u>3,432</u>

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION** (continued):

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
<b>k. Other income (loss)</b>			
Gain (loss) from disposal of fixed assets	(117)	(84)	67
Gain on net assets and operations sold		201,821	
Loss from change in percentage of holding of an associated company	(4,408)	(3,302)	
Write-off and write-down of investee companies	(5,477)		(135)
Gain (loss) from sale of investments in associated and investee companies	(6,041)	191	1,388
Other	3,009	785	(99)
	<u>(13,034)</u>	<u>199,411</u>	<u>1,221</u>

**m. Earnings per share:**

The net income (loss) and the weighted average number of shares used in computation of basic and diluted earnings per share for the years ended December 31, 2001, 2000 and 1999 are as follows:

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
Net income (loss) used for the computation of basic and diluted earnings per share	(250,276)	75,691	30,514
Weighted average number of shares used in the computation of basic earnings (loss) per share	43,018	42,847	42,661
Add- net additional shares from the assumed exercise of the Company's stock options	-	452	322
Weighted average number of shares used in the computation of diluted earnings (loss) per share	<u>43,018</u>	<u>43,299</u>	<u>42,983</u>

**SCITEX CORPORATION LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SEGMENT INFORMATION:**

- a. As a result of the Creo transaction (see note 1b) the Company changed its structure of internal operating segment reporting. Commencing April 2000, and as described in note 1a, the Company operates in one reportable operating segment – designing, manufacturing and marketing (directly or through its subsidiaries) of digital systems for the digital printing and digital imaging markets.
- b. Following are data regarding revenues from external customers, classified by geographical area based on the location of the customers:

	<b>Year ended December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
North and South America	94,319	143,092	314,164
Europe (mainly Western Europe)	83,055	115,228	259,062
Japan	29,728	29,861	50,277
Other countries	49,112	55,487	66,947
	<u>256,214</u>	<u>343,668</u>	<u>690,450</u>

- c. Following are data relating to long-lived assets by geographical area in which the assets are located:

	<b>December 31</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$ in thousands</b>		
Israel	2,772	2,862	27,663
United States	36,142	39,282	55,606
Other countries	2,740	1,303	7,308
	<u>41,654</u>	<u>43,447</u>	<u>90,577</u>

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