

SCITEX CORPORATION LTD.

2000 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, 2000 and 1999 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, 2000. 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, 2000 is \$375,436,000 and the Company's share in losses over investment in which as reflected in the balance sheets as of December 31, 1999 is \$1,138,000, and the Company's share in the net losses of \$44,120,000 in 2000 and \$2,504,000 in 1999. 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, 2000 and 1999 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, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in note 2m 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
February 27, 2001

Kesselman & Kesselman
Certified Public Accountants (Isr.)

SCITEX CORPORATION LTD.
CONSOLIDATED BALANCE SHEETS

	December 31	
	2000	1999
	U.S. dollars in thousands	
A s s e t s		
CURRENT ASSETS:		
Cash and cash equivalents	38,568	49,259
Short-term investments	9,511	32,992
Trade receivables (note 13a):		
Related parties	7,158	18,661
Other	57,740	155,197
Other receivables	9,814	32,582
Inventories (note 13b)	42,673	126,482
Deferred income taxes (note 11d)	27,013	44,975
T o t a l current assets	192,477	460,148
INVESTMENTS AND OTHER NON-CURRENT ASSETS:		
Associated companies (note 4)	375,436	4,417
Other investments and non-current assets (note 5)	19,529	6,084
	394,965	10,501
PROPERTY, PLANT AND EQUIPMENT (note 6):		
Cost	78,047	319,293
L e s s – accumulated depreciation and amortization	34,600	228,716
	43,447	90,577
GOODWILL AND OTHER INTANGIBLE ASSETS		
Net of accumulated amortization (note 7)	55,199	54,578
	686,088	615,804

_____) **Chairman of the Board**
Rimon Ben-Shaoul) **of Directors**

_____) **President, Chief Executive**
Yoav Z. Chelouche) **Officer and Director**

	December 31	
	2000	1999
	U.S. dollars in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Short-term bank credit and loans	10,000	6
Current maturities of long-term loans	2,000	
Trade payables	16,552	65,281
Accrued and other liabilities (note 13c)	<u>104,243</u>	<u>119,939</u>
T o t a l current liabilities	<u>132,795</u>	<u>185,226</u>
LONG-TERM LIABILITIES:		
Loans from banks, net of current maturities (note 13d)	16,308	
Note payable issued to an associated company (note 13e)	16,635	
Deferred income taxes (note 11d)	10,257	948
Other	<u>2,718</u>	<u>1,743</u>
T o t a l long-term liabilities	<u>45,918</u>	<u>2,691</u>
COMMITMENTS AND CONTINGENT LIABILITIES (note 9)		
T o t a l liabilities	<u>178,713</u>	<u>187,917</u>
SHAREHOLDERS' EQUITY (note 10):		
Share capital - ordinary shares of NIS 0.12 par value (authorized - December 31, 2000 and 1999 - 48,000,000 shares; issued and outstanding - December 31, 2000 and 1999 - 43,467,388 shares and 43,138,206 shares, respectively)	6,205	6,196
Capital surplus	364,619	361,519
Accumulated other comprehensive income	904	1,533
Retained earnings	139,854	64,163
Treasury shares, at cost (December 31, 2000 and 1999 - 448,975 shares and 589,500 shares, respectively)	<u>(4,207)</u>	<u>(5,524)</u>
T o t a l shareholders' equity	<u>507,375</u>	<u>427,887</u>
	<u>686,088</u>	<u>615,804</u>

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

SCITEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31		
	2000	1999	1998
	U.S. dollars in thousands (except per share data)		
REVENUES (note 14):			
Sales	230,081	475,370	441,399
Service	72,888	146,814	137,823
Supplies	<u>40,699</u>	<u>68,266</u>	<u>61,089</u>
Total revenues	343,668	690,450	640,311
COST OF REVENUES:			
Cost of sales	118,322	242,442	227,564
Cost of service	61,751	118,365	108,274
Cost of supplies	<u>18,535</u>	<u>35,908</u>	<u>33,198</u>
Total cost of revenues	<u>198,608</u>	<u>396,715</u>	<u>369,036</u>
GROSS PROFIT	145,060	293,735	271,275
RESEARCH AND DEVELOPMENT COSTS - net (note 13g)	38,492	65,522	110,762
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (note 13h)	87,830	167,248	174,997
AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS	<u>10,617</u>	<u>11,393</u>	<u>9,285</u>
OPERATING INCOME (LOSS)	8,121	49,572	(23,769)
FINANCIAL INCOME - net (note 13i)	1,404	3,432	4,971
OTHER INCOME - net (note 1b)	<u>199,411</u>	<u>1,221</u>	<u>1,634</u>
INCOME (LOSS) BEFORE TAXES ON INCOME	208,936	54,225	(17,164)
TAXES ON INCOME (note 11)	34,139	9,180	2,231
SHARE IN LOSSES OF ASSOCIATED COMPANIES - net	<u>(79,594)</u>	<u>(21,481)</u>	<u>(14,897)</u>
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>95,203</u>	<u>23,564</u>	<u>(34,292)</u>
DISCONTINUED OPERATIONS (note 3b):			
Loss from operations			(13,831)
Income (loss) from disposal of assets	<u>1,097</u>	<u>6,950</u>	<u>(62,704)</u>
Income (loss) from discontinued operations	<u>1,097</u>	<u>6,950</u>	<u>(76,535)</u>
CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE AT THE BEGINNING OF THE YEAR (note 2m)	<u>(20,609)</u>		
NET INCOME (LOSS)	<u>75,691</u>	<u>30,514</u>	<u>(110,827)</u>
EARNINGS (LOSS) PER SHARE ("EPS") - BASIC (note 2r):			
Continuing operations	\$2.22	\$0.55	\$(0.80)
Discontinued operations	\$0.03	\$0.16	\$(1.78)
Cumulative effect of an accounting change	<u>\$(0.48)</u>		
	<u>\$1.77</u>	<u>\$0.71</u>	<u>\$(2.58)</u>
EARNINGS (LOSS) PER SHARE ("EPS") - DILUTED (note 2r):			
Continuing operations	\$2.20	\$0.55	\$(0.80)
Discontinued operations	\$0.03	\$0.16	\$(1.78)
Cumulative effect of an accounting change	<u>\$(0.48)</u>		
	<u>\$1.75</u>	<u>\$0.71</u>	<u>\$(2.58)</u>
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EPS (in thousands)(note 13j):			
Basic	<u>42,847</u>	<u>42,661</u>	<u>42,929</u>
Diluted	<u>43,299</u>	<u>42,983</u>	<u>42,929</u>

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 (loss)		Retained earnings	Treasury shares	Total shareholders' equity
			Currency translation adjustments	Unrealized loss on marketable securities available for sale			
U.S. dollars in thousands							
BALANCE AT JANUARY 1, 1998	6,187	358,278	<u>1,457</u>	<u>(10,289)</u>	<u>144,476</u>		<u>500,109</u>
CHANGES DURING THE YEAR ENDED DECEMBER 31, 1998:							
Loss					(110,827)		(110,827)
Other comprehensive income (loss) (note 2I):							
Unrealized loss on marketable securities available for sale:							
Unrealized holding loss arising during the year				(2,730)			(2,730)
Less - loss carried to the consolidated statements of operations				<u>13,019</u>			<u>13,019</u>
				<u>10,289</u>			<u>10,289</u>
Currency translation adjustments			(393)				(393)
Total other comprehensive income			(393)	10,289			9,896
Total comprehensive loss			(393)	10,289	(110,827)		(100,931)
Employee stock options exercised	7	2,103					2,110
Elimination of surplus in respect of employee stock options due to forfeiture, net of surplus arising from employee stock options		(65)					(65)
BALANCE AT DECEMBER 31, 1998 – forward	<u>6,194</u>	<u>360,316</u>	<u>1,064</u>	<u>-,-</u>	<u>33,649</u>		<u>401,223</u>

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

	Share capital	Capital surplus	Accumulated other comprehensive income (loss)		Retained earnings	Treasury shares	Total shareholders' equity
			Currency translation adjustments	Unrealized loss on marketable securities available for sale			
U.S. dollars in thousands							
BALANCE AT DECEMBER 31, 1998 - brought forward	6,194	360,316	<u>1,064</u>	<u>-,-</u>	<u>33,649</u>		<u>401,223</u>
CHANGES DURING THE YEAR ENDED DECEMBER 31, 1999:							
Net income					30,514		30,514
Other comprehensive income - currency translation adjustments			469				469
Total comprehensive income			<u>469</u>	<u>-,-</u>	<u>30,514</u>		<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)
BALANCE AT DECEMBER 31, 1999	<u>6,196</u>	<u>361,519</u>	<u>1,533</u>	<u>-,-</u>	<u>64,163</u>	(5,524)	<u>427,887</u>
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2000:							
Net income					75,691		75,691
Other comprehensive income - currency translation adjustments			(629)				(629)
Total comprehensive income			<u>(629)</u>	<u>-,-</u>	<u>75,691</u>		<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
BALANCE AT DECEMBER 31, 2000	<u>6,205</u>	<u>364,619</u>	<u>904</u>	<u>-,-</u>	<u>139,854</u>	(4,207)	<u>507,375</u>

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

SCITEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2000	1999	1998
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	75,691	30,514	(110,827)
Adjustments to reconcile net income or loss to net cash provided by operating activities:			
Cumulative effect of an accounting change	20,609		
Share in losses of associated companies – net	79,594	21,481	14,897
Depreciation and amortization	30,292	39,386	35,466
Compensation resulting from employee stock options - net	16	26	(65)
Deferred income taxes – net	18,762	(15,571)	(8,657)
Write off of acquired in-process research and development			44,264
Loss (income) from discontinued operations	(1,097)	(6,950)	76,535
Gain on net assets of operations sold, see note 1b	(201,821)		
Decrease in short-term investments	23,113	455	52,871
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivables (including non-current portion)	3,659	(39,749)	(29,751)
Increase (decrease) in accounts payable and accruals	3,412	35,632	(1,090)
Decrease (increase) in inventories	(10,659)	(3,540)	6,622
Other items – net	4,319	(67)	252
Net cash provided by operating activities	<u>45,890</u>	<u>61,617</u>	<u>80,517</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in cash in respect of operations sold *	(36,661)		
Acquisition of a subsidiary **			(61,585)
Additional amount paid in respect of acquisition of a subsidiary			(7,000)
Purchase of fixed assets	(15,904)	(30,205)	(26,487)
Proceeds from sale of fixed assets	888	1,859	1,476
Proceeds from sale of other investment	1,337		
Proceeds from disposal of investment in subsidiary			8,000
Purchase of intangible assets	(13,480)	(5,828)	(12,578)
Investment in associated companies and other investments	(26,154)	(21,914)	(12,886)
Net cash used in investing activities	<u>(89,974)</u>	<u>(56,088)</u>	<u>(111,060)</u>
Subtotal – forward	<u>(44,084)</u>	<u>5,529</u>	<u>(30,543)</u>

SCITEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2000	1999	1998
	U.S. dollars in thousands		
Subtotal - brought forward	(44,084)	5,529	(30,543)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Employee stock options exercised and paid	4,410	896	2,110
Increase in long-term liabilities	18,975	466	3,061
Increase (decrease) in short-term bank credit and loans	10,008	(2,028)	2,992
Purchase of treasury shares		(5,524)	
Net cash provided by (used in) financing activities	33,393	(6,190)	8,163
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,691)	(661)	(22,380)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	49,259	49,920	72,300
CASH AND CASH EQUIVALENTS AT END OF YEAR	38,568	49,259	49,920
* Operations sold on date of the transaction, see note 1b:			
Working capital (excluding cash and cash equivalents)	117,157		
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		
Gain from the transaction	201,821		
	(36,661)		
** Acquisition of a subsidiary:			
Working capital (excluding cash and cash equivalents)			10
Property, plant and equipment – net			666
Goodwill and other intangible assets			16,645
Acquired in-process research and development			44,264
			61,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	807	396	738
Income taxes paid	3,954	1,115	9,867

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 equity investments". The remaining purchase price was allocated to tangible assets and intangible assets, including goodwill of \$245 million (see also note 4).

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - GENERAL (continued):

- 2) 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):

	Three months ended March 31, 2000	Year ended December 31, 1999	Year ended December 31, 1998
	\$ in millions (except per share data)		
Revenues	<u>113</u>	<u>492</u>	<u>454</u>
Gross profit	<u>46</u>	<u>201</u>	<u>184</u>
Operating income	<u>5</u>	<u>40</u>	<u>10</u>
Income before cumulative effect of an accounting change	<u>1</u>	<u>33</u>	<u>(1)</u>
Cumulative effect of an accounting change	<u>(14)</u>		
Net income (loss)	<u>(13)</u>	<u>33</u>	<u>(1)</u>
Earnings (loss) per share - basic and diluted:			
Income before cumulative effect of an accounting change	\$0.03	\$0.76	\$(0.02)
Cumulative effect of an accounting change	<u>\$(0.33)</u>		
	<u>\$(0.30)</u>	<u>\$0.76</u>	<u>\$(0.02)</u>

Financial position data (unaudited):

	March 31, 2000	December 31, 1999
	\$ in millions	
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>

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

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 accounting for certain revenues, as explained in m 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 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 (loss)."

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", 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. 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. 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 knowhow and technology, 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.

g. Other investments

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

h. Fixed assets

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:

	<u>%</u>
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.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 in equal annual installments, 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).

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 indicators of impairment are present, the existence of impairment is identified by comparing the carrying amount of the potentially impaired asset to the undiscounted cash flows from use and eventual disposition of that asset. If the carrying amount of the asset being evaluated is greater than the undiscounted cash flows from use and eventual disposition of that asset, then impairment is measured based on the excess, if any, of the carrying amount over the fair value of the asset. In the reported periods, no impairment loss has been recognized.

k. Treasury shares

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

l. Comprehensive income

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

m. Revenue recognition and change in accounting principles:

1) Revenue recognition:

- a) 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.

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

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

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.

2) Change in accounting principles

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 Company's product sales with installation requirements fall into the following two broad categories: (1) products with installation which is considered to be a separate earnings process, and (2) products with installation which is not considered to be a separate earnings process.

The Company previously considered the related installation requirements to be perfunctory, as it had routinely met its installation obligations shortly after the shipping date, and recognized upon delivery and transfer of title to the customer. Upon the adoption of SAB 101, the Company recognizes revenue as described in m(1) above.

The adoption of SAB 101 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.

Since most of the operations and records related to the DPP business were transferred to Creo, the presentation of pro-forma amounts with respect to the consolidated statements of operations, assuming the accounting change had been made retroactively to all prior periods, is impractical.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Research and development costs

Research and development expenses 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.

o. Advertising

These costs are expensed as incurred.

p. Allowance for doubtful accounts

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

q. 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.

r. 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 it would have been anti-dilutive). In addition, in 2000, dilutive EPS does not reflect options granted by a subsidiary and an associated company to be exercised to their shares, since their effect would have been anti-dilutive.

s. Recently issued accounting pronouncement

In June 1998, the FASB issued FAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“FAS 133”). FAS 133 established a new accounting model for derivatives and hedging activities and 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 adopted FAS 133 as of January 1, 2001. The adoption has no material effect on the Company’s results or on its financial position.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - ACQUISITIONS AND DISPOSAL OF A BUSINESS:

a. Acquisitions:

- 1) As to the acquisition of Creo shares, see note 1b.
- 2) In October 1998, the Company 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 provides 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; \$6.8 million of that amount was paid through December 31, 2000, see also note 13c.
- 3) 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. The \$44,264,000 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.

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 operations 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 2000, 1999 and 1998 have been classified as discontinued operations.

Revenues and operating loss for 1998 in respect of the discontinued operations were \$29,534 and \$13,831, respectively. The Company does not expect any additional losses as a result of the transaction.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES:

a. Presented in the balance sheets as follows:

	December 31	
	2000	1999
	\$ in thousands	
	<u> </u>	<u> </u>
Among investments:		
Investment in Creo *	370,036	
Investments in other associated companies	5,400	4,417
Among accrued and other liabilities	<u>(438)</u>	<u>(3,514)</u>
	<u>374,998</u>	<u>903</u>

* See note 1b and (b), (c) and (d) below.

The Company has provided guarantees for bank credit received by joint venture companies - \$19.3 million and \$20.2 million at December 31, 2000 and 1999, respectively (see also (e) below).

- b.** Creo draws up its financial statements as of September 30 of each year; accordingly, the financial position and the results of operations for Creo have been included in the Company's consolidated financial statements on a three-month time lag. The Company's share in the accumulated losses of Creo since acquisition amounts to \$44,120,000 (including an amount of \$23,925,000 from IPR&D, see also (d) below).

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

Financial position data:

	\$ in thousands
	<u> </u>
Current assets	<u>446,280</u>
Non-current assets	<u>461,420</u>
Current liabilities	<u>243,604</u>
Non-current liabilities	<u>15,462</u>

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):

Statements of operations data - for the six month period ended September 30, 2000
(unaudited):

	<u>\$ in thousands</u>
Revenues	<u>335,879</u>
Gross profit	<u>148,496</u>
Operating loss	<u>(70,951)</u>
Net loss	<u>(57,451)</u>

- c. Creo's stock is currently traded on NASDAQ and on the Toronto Stock Exchange. On December 31, 2000, Creo common stock closed at approximately \$20.2 per share. The Company's carrying amount per share of Creo's stock on December 31, 2000 was \$27.9 per share. Management believes the decline resulted primarily from market conditions related to technology stocks and sees no reason to believe that the decline is other than temporary in nature.

The Company will continue to evaluate the carrying amount of its investment in Creo on an ongoing basis and will record impairment charges, if necessary, in the event of other than temporary impairment of its investment.

- d. The value allocated to the IPR&D in Creo - \$23.9 million was determined using an income approach that included an excess earnings analysis reflecting the appropriate cost of capital for the investment. Estimates of future cash flows related to the IPR&D were made for each project based on the Company's estimates of revenue, operating expenses and income taxes from the project. These estimates were consistent with historical pricing, margins and expense levels for similar products.

Revenues were estimated based on relevant market size and growth factors, expected industry trends, individual product sales cycles and the estimated life of each product's underlying technology. Estimated operating expenses, income taxes and charges for the use of contributory assets were deducted from estimated revenues to determine estimated after-tax cash flows for each project.

Estimated operating expenses include cost of goods sold; selling, general and administrative expenses; and research and development expenses. The research and development expenses include estimated costs to maintain the products once they have been introduced into the market and generate revenues and costs to complete the in-process research and development.

The rates utilized to discount the projected cash flows were based on Creo's weighted average cost of capital, as well as other factors including the useful life of each project, the anticipated profitability of each project, the uncertainty of technology advances that were known at the time and the stage of completion of each project.

Management is primarily responsible for estimating the fair value of the assets and liabilities acquired, and has conducted due diligence in determining the fair value.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):

Management has made estimates and assumptions that affect the reported amounts of assets, liabilities and expenses resulting from such acquisitions. Actual results could differ from those amounts.

- e. At December 31, 2000, the Company decided to terminate its involvement in two joint venture companies. A provision has been made for estimated losses that will be incurred in connection with the termination of these investments.

NOTE 5 - OTHER INVESTMENTS AND NON-CURRENT ASSETS:

- a. **Composed as follows:**

	December 31,	
	2000	1999
	\$ in thousands	
Other investments ^(b)	17,736	3,616
Non-current assets	1,793	2,468
	<u>19,529</u>	<u>6,084</u>

- b. The balance of other investments represent investments in companies operating in the digital imaging industry, in which the Company does not exercise significant influence. These investments are stated at cost.

This item includes, as of December 31, 2000 and 1999, investment amounting \$738,000 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 of Aprion shares, warrants (the exercise price of which is \$5.0 million) 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 is a development stage company. As of December 31, 2000, the Company's ownership interest in Aprion is approximately 11.3%, after the issuance of shares to other investors during 2000. Upon conversion of the note and exercise all of Aprion's warrants, the Company will hold approximately 43% of Aprion's shares, on a fully diluted basis. 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.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

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

	C o s t		Accumulated depreciation and amortization	
	December 31		December 31	
	2000	1999	2000	1999
	\$ in thousands			
Machinery and equipment	40,354	217,881	18,658	171,715
Building (including land)		8,755		2,196
Leasehold improvements	16,481	43,379	2,694	26,483
Office furniture and equipment	21,097	47,853	13,136	27,195
Motor vehicles	115	1,425	112	1,127
	<u>78,047</u>	<u>319,293</u>	<u>34,600</u>	<u>228,716</u>

Depreciation and amortization of property, plant and equipment totaled \$12,812,000, \$28,000,000 and \$26,181,000 in 2000, 1999 and 1998, respectively.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS:

	December 31	
	2000	1999
	\$ in thousands	
Original amount:		
Goodwill in subsidiaries and acquired goodwill	41,212	65,908
Acquired technology and other intangible assets	<u>52,153</u>	<u>43,063</u>
	<u>93,365</u>	<u>108,971</u>
Less - accumulated amortization:		
Goodwill in subsidiaries and acquired goodwill	16,136	37,271
Acquired technology and other intangible assets	<u>22,030</u>	<u>17,122</u>
	<u>38,166</u>	<u>54,393</u>
	<u>55,199</u>	<u>54,578</u>

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 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 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, are composed as follows (see also note 1b):

	<u>December 31</u>	
	<u>2000</u>	<u>1999</u>
	<u>\$ in thousands</u>	
Liability	1,900	20,834
Less - amount funded	<u>1,411</u>	<u>17,693</u>
Unfunded balance	<u>489</u>	<u>3,141</u>

The amounts of accrued severance pay as above represent the Company's severance pay liability in accordance with labor agreements in force and based on salary components, which, in management's opinion, create entitlement to severance pay.

The Company may only utilize the insurance policies for the purpose of disbursement of severance pay.

- e. Severance pay, pension and defined contribution plan expenses totaled \$2,941,000, \$9,587,000 and \$7,915,000 in 2000, 1999 and 1998, 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, 2000, the maximum contingent royalty payable is \$4.0 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) 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 the two major shareholders of the Company.

Minimum lease commitments of the Company and its subsidiaries under the above leases, at rates in effect on December 31, 2000, are as follows:

	<u>\$ in thousands</u>
Year ending December 31:	
2001	4,512
2002	4,120
2003	3,825
2004	3,715
2005	3,504
2006 and thereafter	20,275

The rental payments for the premises in Israel, which constitute approximately 14 % 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 \$6,103,000, \$ 11,376,000 and \$12,408,000 in 2000, 1999 and 1998, respectively.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES:

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) Contingent purchase price of other intangible assets, see note 3a(2).

NOTE 10 - SHAREHOLDERS' EQUITY:

a. Share capital

- 1) The Company's shares are traded on NASDAQ.
- 2) The number of shares stated as issued and outstanding - 43,467,388 shares and 43,138,206 shares at December 31, 2000 and 1999, respectively - includes 448,975 shares and 589,500 shares at December 31, 2000 and 1999, respectively, repurchased by the Company (treasury shares, see note 2k) and held by a trustee for the benefit of employees within the framework of a share option plan. These shares, until purchased by employees pursuant to the plan, bear no voting rights or rights to cash dividends.

b. Share incentive and stock option 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 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. Option awards may be granted under the plans up to September 2001. The options are generally vested ratably over a period of 3-4 years. 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.

In 1999, the Board of Directors resolved to re-price certain options granted to the CEO and President of the Company in earlier years, see (6) below.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - SHAREHOLDERS' EQUITY (continued):

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

	December 31	
	2000	1999
	Number of options	
At balance sheet date	1,729,609	1,667,128
During the first year thereafter	206,914	984,247
During the second year thereafter	173,728	199,625
During the third year thereafter	136,214	133,750
During the fourth year thereafter	<u> </u>	<u>62,250</u>
	<u>2,246,465</u>	<u>3,047,000</u>

- 3) A summary of the status of the Company's plans at December 31, 2000, 1999 and 1998, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	2000		1999		1998	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Options outstanding at beginning of year	3,047,000	9.83	3,231,268	10.10	3,349,950	10.00
Changes during the year:						
Granted	391,000	11.23	264,000	10.94	483,000	11.58
Exercised and paid	(469,707)	9.18	(99,354)	9.12	(230,334)	9.06
Forfeited	*(721,828)	10.32	(348,914)	12.00	(371,348)	11.69
Options outstanding at end of year	<u>2,246,465</u>	10.06	<u>3,047,000</u>	9.83	<u>3,231,268</u>	10.10
Options exercisable at end of year	<u>1,729,609</u>	9.80	<u>1,667,128</u>	9.60	<u>758,902</u>	9.38
Options available for future awards	<u>1,293,240</u>		<u>962,412</u>		<u>877,498</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 2000, 1999 and 1998 is \$4.80, \$3.32 and \$5.51, 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		
	2000	1999	1998
Dividend yield per share - in dollars	<u>-,-</u>	<u>-,-</u>	<u>-,-</u>
Expected volatility	<u>57%</u>	<u>40%</u>	<u>64%</u>
Risk-free interest rate	<u>6.0%</u>	<u>6.2%</u>	<u>5.2%</u>
Expected life - in years	<u>3.00</u>	<u>2.62</u>	<u>2.38</u>

- 4) The following table summarizes information about options under the Company's plans outstanding at December 31, 2000:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2000	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2000	Weighted average exercise price
	\$	Years	\$		\$
9.00 to 9.99	1,223,352	4.9	9.06	1,223,352	9.06
10.00 to 10.99	367,500	9.3	10.63	5,062	10.00
11.00 to 11.99	570,063	5.9	11.39	424,812	11.35
12.00 to 12.99	67,550	5.4	12.15	58,383	12.07
16.00	<u>18,000</u>	4.3	16.00	<u>18,000</u>	16.00
9.00 to 16.00	<u>2,246,465</u>	5.9	10.06	<u>1,729,609</u>	9.80

- 5) 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 options granted was \$ 5.02.
- 6) 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 January 2006. The fair value of each options granted was \$3.21.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - SHAREHOLDERS' EQUITY (continued):

7) Options granted by a principal shareholder

In January 2000, a principal shareholder granted the 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.

8) Stock option plan of a subsidiary

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 \$6.5. As of December 31, 2000, all these options are with a weighted average contractual life of 6.7 years, and none of them is exercisable.

The weighted fair value of options granted by the subsidiary during 2000 is \$2.98. 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 6.0%, expected life of 3 years.

9) Accounting treatment of share incentive and stock option plans

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

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - SHAREHOLDERS' EQUITY (continued):

In accordance with FIN 44, the re-priced options (as described in (6) 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, 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 of these options. Future periods may reflect charges or credits depending on the fair market price of the underlying shares.

The net compensation cost in respect of the current year, in the years ended December 31, 2000 and 1999, is \$16,000 and \$26,000, respectively. 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 year ended December 31, 1998, is \$65,000.

Had compensation for the Company's plans together with the Subsidiary Plan and the options granted by a principal shareholder had 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		
	2000	1999	1998	2000	1999	1998
	As reported			Pro-forma		
Net income (loss) - in thousands of dollars	<u>75,691</u>	<u>30,514</u>	<u>(110,827)</u>	<u>72,698</u>	<u>29,689</u>	<u>(114,320)</u>
Earnings (loss) per share - in dollars - basic:						
Continuing operations	2.22	0.55	(0.80)	2.15	0.53	(0.88)
Discontinued operations	0.03	0.16	(1.78)	0.03	0.16	(1.78)
Cumulative effect of an accounting change	<u>(0.48)</u>			<u>(0.48)</u>		
Net income (loss)	<u>1.77</u>	<u>0.71</u>	<u>(2.58)</u>	<u>1.70</u>	<u>0.69</u>	<u>(2.66)</u>
Earnings (loss) per share - in dollars - diluted:						
Continuing operations	2.20	0.55	(0.80)	2.07	0.53	(0.88)
Discontinued operations	0.03	0.16	(1.78)	0.03	0.16	(1.78)
Cumulative effect of an accounting change	<u>(0.48)</u>			<u>(0.48)</u>		
Net income (loss)	<u>1.75</u>	<u>0.71</u>	<u>(2.58)</u>	<u>1.62</u>	<u>0.69</u>	<u>(2.66)</u>

c. Retained earnings

Dividends are declared and paid in Israeli currency ("NIS").

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME:

a. The Company and its Israeli subsidiary:

- 1) Tax benefits under the 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 from 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 CPI 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.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME:

- 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 from other sources

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 approximated \$54 million at December 31, 2000. Most of the carryforward amounts will expire in 2018-2020.

d. Deferred income taxes:

	December 31	
	2000	1999
	\$ in thousands	
Computed in respect of the following:		
Allowance for doubtful accounts and recourse provisions	1,191	16,127
Carryforward tax losses and credits	27,775	43,810
Losses related to associated companies	15,883	
Inventories	639	8,764
Accrued liabilities and deferred income	14,623	17,883
Fixed assets	(5,379)	(5,959)
Other	(4,802)	(260)
	<u>49,930</u>	<u>80,365</u>
L e s s - valuation allowance	<u>33,174</u>	<u>36,174</u>
	<u>16,756</u>	<u>44,191</u>
Deferred taxes are included in the balance sheets as follows:		
Current assets	27,013	44,975
Non-current assets		164
Long-term liabilities	(10,257)	(948)
	<u>16,756</u>	<u>44,191</u>

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):

v. Income (loss) before taxes on income:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
Israeli	199,172	35,410	2,032
Non-Israeli	<u>9,764</u>	<u>18,815</u>	<u>(19,196)</u>
	<u>208,936</u>	<u>54,225</u>	<u>(17,164)</u>

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

1) As follows:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
Current:			
Israeli	14,833		41
Non-Israeli	<u>1,116</u>	<u>24,751</u>	<u>10,847</u>
	<u>15,949</u>	<u>24,751</u>	<u>10,888</u>
Deferred, see d. above:			
Israeli	5,998		515
Non-Israeli	<u>12,192</u>	<u>(15,571)</u>	<u>(9,172)</u>
	<u>18,190</u>	<u>(15,571)</u>	<u>(8,657)</u>
	<u>34,139</u>	<u>9,180</u>	<u>2,231</u>

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):

- 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:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
Income (loss) before taxes on income	<u>208,936</u>	<u>54,225</u>	<u>(17,164)</u>
Theoretical tax expense (tax benefit) on the above amount	75,216	19,521	(6,179)
Effect of lower tax rate for "approved enterprises"	<u>(1,926)</u>	<u>(7,252)</u>	<u>(528)</u>
	73,290	12,269	(6,707)
Increase (decrease) in taxes resulting from different tax rates – net	(198)	292	(891)
Increase in taxes resulting from permanent differences	379	2,943	3,458
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	(38,383)	(1,709)	511
Increase (decrease) in taxes arising from differences between non-dollar currencies income and dollar income – net, and other*	<u>(949)</u>	<u>(4,615)</u>	<u>5,860</u>
Actual tax expense	<u>34,139</u>	<u>9,180</u>	<u>2,231</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.

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.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - 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) 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.

b. Foreign exchange risk management

The Company 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.

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.

The notional amounts of foreign currency derivatives for the conversion of non-dollar currencies into dollars as of December 31, 1999 were as follows: forward exchange contracts - \$53 million, currency options purchased - \$95 million and currency options written - \$140 million.

c. Concentrations of credit risks

At December 31, 2000 and 1999, 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, 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.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

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).

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. As to the market value of Creo's shares held by the Company see note 4.

NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

	December 31	
	2000	1999
	\$ in thousands	
a. Trade receivable - net of allowance for doubtful accounts of	<u>3,436</u>	<u>16,303</u>
b. Inventories:		
Components of systems and materials	13,727	48,522
Work in process	2,594	12,038
Finished products	<u>26,352</u>	<u>65,922</u>
	<u>42,673</u>	<u>126,482</u>
c. Accrued and other liabilities:		
Payroll and related expenses	6,569	26,072
Taxes on income, net of advances	42,319	32,984
Accrued royalties and sales commissions	1,668	5,557
Accrued payments in respect of acquired technology (see note 3a(2))	4,400	2,371
Deferred income	5,628	4,592
Other	<u>43,659</u>	<u>48,363</u>
	<u>104,243</u>	<u>119,939</u>

d. Lines of credit and loans from bank:

1) Line of credit

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

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

Borrowings under the revolving line of credit and long-term loans bear interest of Libor + 0.4% to Libor + 0.6%. 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 loan are secured by a negative pledge and require the subsidiary to maintain certain financial and non-financial covenants.

2) Short-term bank credit and loans

The balance as of December 31, 2000 represents short-term banks loans denominated in dollars and bears interest of one month Libor + 0.4% per annum (as of December 31, 2000 – 7.1%).

3) Long-term bank loans:

a) The loans are denominated in dollars, bear interest of three month Libor + 0.4% to Libor + 0.6% per annum (as of December 31, 2000 – 6.9% to 7.1%, respectively) and are payable in quarterly installments, starting March 2001.

b) The long-term loans (net of current maturities) mature in the following years after December 31, 2000:

	<u>\$ in thousands</u>
Second year	15,308
Third year	<u>1,000</u>
	<u><u>16,308</u></u>

e. Note payable issued to an associated 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.

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

NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

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

	December 31, 2000	
	Unlinked Israeli currency	Other non-dollar currencies
	\$ in thousands	
Assets – current	7,783	14,535
Liabilities – current	6,447	4,867

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

Statements of operations:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
g. Research and development costs - net:			
Expenses incurred, including acquired in process research and development expenses for 1998 (see note 3a(3))	39,694	72,622	121,632
L e s s - royalty-bearing participations from the Government of Israel (note 9a(1)(a))	1,202	7,100	10,870
	38,492	65,522	110,762
h. Selling, general and administrative expenses:			
Selling*	59,640	101,499	100,855
General and administrative**	28,190	65,749	74,142
	87,830	167,248	174,997
* Including advertising costs	2,078	789	1,260
** Including net change in allowance for doubtful accounts and direct write-off of bad debts	1,434	8,202	7,625

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

i. Financial income - net:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
Interest income	1,443	3,464	4,528
Realized and unrealized gain on trading marketable securities - net	1,496	1,284	619
Interest expense on long-term loans from banks	(678)		
Bank charges	(302)	(708)	(819)
Other (including foreign exchange transaction gains (losses) - net)	(555)	(608)	643
	<u>1,404</u>	<u>3,432</u>	<u>4,971</u>

j. 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, 2000, 1999 and 1998 are as follows:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
Net income (loss) used for the computation of basic and diluted earnings per share	<u>75,691</u>	<u>30,514</u>	<u>(110,827)</u>
Weighted average number of shares used in the computation of basic earnings (loss) per share	42,847	42,661	42,929
Add- net additional shares from the assumed exercise of the Company's stock options	<u>452</u>	<u>322</u>	<u>-,-</u>
Weighted average number of shares used in the computation of diluted earnings (loss) per share	<u>43,299</u>	<u>42,983</u>	<u>42,929</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:

	Year ended December 31		
	2000	1999	1998
	\$ in thousands		
North and South America	143,092	314,164	293,861
Europe (mainly Western Europe)	115,228	259,062	236,779
Japan	29,861	50,277	64,573
Other countries	55,487	66,947	45,098
	<u>343,668</u>	<u>690,450</u>	<u>640,311</u>

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

	December 31		
	2000	1999	1998
	\$ in thousands		
Israel	2,862	27,663	30,762
United States	39,282	55,606	51,522
Other countries	1,303	7,308	8,618
	<u>43,447</u>	<u>90,577</u>	<u>90,902</u>

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