

Consolidated Balance Sheets

In terms of shekels of March 2004

	March 31 2004	March 31 *2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
	**Reported amounts	NIS thousands	NIS thousands
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	248,687	253,772	289,518
Deposits and short-term investments	45,800	42,151	17,095
Marketable securities	227,295	138,409	243,706
Current maturities and loans receivable	6,928	44,824	*26,923
Trade receivables	472,307	361,729	*389,931
Other receivables	164,105	105,690	*211,327
Inventory and work-in-process	347,235	313,444	*322,163
	1,512,357	1,260,019	1,500,663
Real estate	535,614	609,833	530,441
Investments and long-term loans			
Investments in investee and other companies	944,770	1,118,946	926,083
Loans and deposits	40,133	38,378	54,388
	984,903	1,157,324	980,471
Fixed assets	787,101	800,383	*787,957
Other assets and deferred expenses	120,856	112,963	164,819
Assets attributed to discontinued operations	-	772,324	15,641
	3,940,831	4,712,846	3,979,992
Current liabilities			
Credit from banks and others	849,421	873,018	937,519
Suppliers and service providers	263,839	182,463	*240,855
Accounts payable and credit balances	338,804	216,012	*337,898
Customer deposits	65,318	120,067	55,293
	1,517,382	1,391,560	1,571,565
Long-term liabilities			
Credit from banks and others	1,319,902	1,306,973	1,313,995
Debentures	196,089	237,335	196,542
Debentures convertible into shares	259,662	318,716	279,230
Employee retirement benefit, net	18,496	10,285	18,697
Deferred taxes	12,937	14,755	13,052
	1,807,086	1,888,064	1,821,516
Liabilities attributed to discontinued operations	-	718,443	15,316
Minority interest	420,768	522,077	392,024
Receipts from share options issued by subsidiaries	13,843	31,864	12,793
Shareholders' equity	181,752	160,838	166,778
	3,940,831	4,712,846	3,979,992

* Reclassified, including discontinued operations.

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Date of approval: May 30, 2004

Consolidated Statements of Operations

In terms of shekels of March 2004

	For the three months ended		For the
	March 31 2004 (Unaudited)	March 31 2003 (Unaudited)	year ended December 31 2003 (Audited)
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
**Reported Amounts	NIS thousands	NIS thousands	NIS thousands
Income			
Income from sales, services, consulting, management and underwriting	455,846	337,624	1,376,339
Gain on marketable securities, net	17,080	12,349	110,536
Gain on sales of investments, loans and assets, net	28,243	1,334	15,702
Company's equity in earnings of investment, net	11,747	728	10,857
	<u>512,916</u>	<u>352,035</u>	<u>1,513,434</u>
Costs and expenses			
Cost of sales and services	345,249	251,364	999,130
Selling and marketing	42,592	39,809	161,490
General and administrative	65,008	53,309	233,956
Financing expenses, net	28,812	27,016	177,620
Other expenses, net	-	-	17,104
	<u>481,661</u>	<u>371,498</u>	<u>1,589,300</u>
Earnings (loss) before taxation income	31,255	(19,463)	(75,866)
Taxes on income	(6,840)	(5,579)	(16,287)
Earnings (loss) from operations after taxes on income	24,415	(25,042)	(92,153)
Minority interest in losses (earnings) of subsidiaries, net	(12,914)	19,655	68,985
Gain (loss) attributed to continued operations	11,501	(5,387)	(23,168)
Loss attributed to discontinued operations	-	(3,815)	(9,729)
Net earnings (loss) for the period	11,501	(9,202)	(32,897)
Earnings (loss) per NIS 1 par value of the ordinary share capital:			
Basic earnings (loss) per share from continued operations	0.64	(0.36)	(1.40)
Basic loss per share from discontinued operations	-	(0.26)	(0.58)
Basic earnings (loss) per share	<u>0.64</u>	<u>(0.62)</u>	<u>(1.98)</u>
Diluted earnings (loss) per share from continued operation	0.59	(0.36)	(1.4)
Diluted loss per share from discontinued operation	-	(0.26)	(0.58)
Diluted earnings (loss) per share	<u>0.59</u>	<u>(0.62)</u>	<u>(1.98)</u>

* Reclassified, including discontinued operations.

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Statements of Changes in Shareholders' Equity

In terms of shekels of March 2004

	Share capital	Premium on shares and capital reserves	Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Retained earnings	Total
	Reported Amounts*						
	NIS thousands						
Balance as at January 1, 2004 (Audited)	24,923	162,223	4,981	(3,194)	(4,691)	(17,464)	166,778
Three month period ended March 31, 2004 (unaudited)							
Conversion of debentures into shares of the Company (1)	375	2,458	-	-	-	-	2,833
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	640	-	-	-	640
Net earnings for the period	-	-	-	-	-	11,501	11,501
Balance as at March 31, 2004	25,298	164,681	5,621	(3,194)	(4,691)	(5,963)	181,752

(1) In the current period NIS 3,000 thousand par value of debentures were converted into 375 thousand ordinary shares of the Company. As at balance sheet date the balance of the debentures is a par value of NIS 14,000 thousand.

* In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Statements of Changes in Shareholders' Equity (cont'd)

In terms of shekels of March 2004

	Share capital	Premium on shares and capital reserves	Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Retained losses	Total
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003						
	NIS thousands						
Balance as at January 2003 (Audited)	21,917	137,332	3,354	(3,194)	(4,585)	15,433	170,257
Three month period ended March 31, 2003 (unaudited)							
Purchase of company shares	-	-	-	-	(106)	-	(106)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	(111)	-	-	-	(111)
Loss for the period	-	-	-	-	-	(9,202)	(9,202)
Balance as at March 31, 2003	<u>21,917</u>	<u>137,332</u>	<u>3,243</u>	<u>(3,194)</u>	<u>(4,691)</u>	<u>6,231</u>	<u>160,828</u>

Statements of Changes in Shareholders' Equity (cont'd)

In terms of shekels of March 2004

	Share capital	Premium on shares and capital reserves	Adjustments from the translation of financial statements of autonomous foreign investees	Loans to employees for purchase of shares	Company shares held by the Company and subsidiary	Retained losses	Total
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003						
	NIS thousands						
Balance as at January 1, 2003 (Audited)	21,917	137,332	3,354	(3,194)	(4,585)	15,433	170,257
Changes in 2003:							
Private issuance of shares, net	3,006	26,118	-	-	-	-	29,124
Purchase of Company shares by subsidiary	-	-	-	-	(106)	-	(106)
Changes in capital reserves in respect of investee Companies	-	(1,227)	-	-	-	-	(1,227)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	1,627	-	-	-	1,627
Loss for the year	-	-	-	-	-	(32,897)	(32,897)
Balance as at December 31, 2003	24,923	162,223	4,981	(3,194)	(4,691)	(17,464)	166,778

Consolidated Statements of Cash Flows

In terms of shekels of March 2004

	For the three months ended		For the
	March 31 2004 (Unaudited)	March 31 *2003 (Unaudited)	year ended December 31 2003 (Audited)
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
**Reported Amounts	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Net earnings (loss)	11,501	(9,202)	(32,897)
Adjustments required to reconcile cash from operating activities (Annex A)	(105,011)	(13,561)	(54,880)
Net cash inflow (outflow) attributed to continued operations	(93,510)	(22,763)	(87,777)
Net cash outflow attributed to discontinued operations	-	1,071	14,983
Net cash outflow from operating activities	(93,510)	(21,692)	(72,794)
Cash flows from investing activities:			
Purchase of fixed assets, real estate and amounts charged to projects under construction and other assets	(31,257)	(79,509)	(108,278)
Proceeds from sale of fixed assets and other assets	71,736	6,009	24,735
Proceeds from sale of marketable securities, short-term investments and deposits, net	156	31,016	90,655
Investments in investee and other companies (including through loans and capital notes), net	(38,257)	(25,551)	(145,104)
Decrease in deposits and loans granted, net	9,277	23,557	22,058
Proceeds from sale of investment in investee and other companies	85,201	2,059	218,275
Initially fully or proportionately consolidated companies and acquisition of activities (Annex C)	(13,759)	-	33,724
Companies formerly fully or proportionately consolidated no longer consolidated and activities sold (Annex D)	-	-	29,689
Dividend from subsidiary and others	-	146	795
Net cash inflow (outflow) attributed to continued investments activities	83,097	(39,237)	166,549
Net cash inflow attributed to discontinued investment activities	-	82,980	108,371
Net cash inflow from investment activities	83,097	43,707	274,920

* Reclassified, including discontinued operations

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of March 2004

	For the three months ended		For the
	March 31 2004	March 31 *2003	year ended December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
**Reported Amounts	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities:			
Purchase of treasury shares	-	(106)	(106)
Liability for financial lease	-	57,038	(54,739)
Issuance of debentures and convertible debentures in consolidated companies, net	-	36,064	35,884
Issue of convertible bonds in Company's shares, net	-	11,640	11,640
Dividend to minority	(11,753)	(189)	(1,341)
Receipt (repayment) of loans and capital notes, net	7,587	(21,857)	45,307
Issuance of marketable securities of subsidiaries	63	-	(1,262)
Repayment of short-term credit, net	(15,229)	(32,925)	(10,007)
Purchase of shares from the minority shareholders by subsidiary	(236)	-	-
Repayment of debentures and convertible debentures in consolidated companies	(10,934)	(16,360)	(96,228)
Net cash inflow (outflow) attributed to continued financing activities	(30,502)	33,305	(70,852)
Net cash outflow attributed to discontinued financing activities	-	(103,485)	(117,385)
Net cash outflow from financing activities	(30,502)	(70,258)	(188,237)
Translation differences with respect to cash balances with respect to cash balances in autonomous investee companies	84	(94)	(999)
Increase (decrease) in cash and cash equivalents	(40,831)	(28,825)	6,921
Balance of cash and cash equivalents at beginning of period	289,518	282,597	282,597
Balance of cash and cash equivalents at end of period	248,687	253,772	289,518

* Reclassified, including discontinued operations.

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of March 2004

**Annex A -
Adjustments required to reconcile cash from
operating activities**

	For the three months ended		For the
	March 31 2004 (Unaudited)	March 31 *2003 (Unaudited)	year ended December 31 2003 (Audited)
	**Reported Amounts NIS thousands	Amounts adjusted to the effect of inflation in terms of NIS of December 2003 NIS thousands	
Income and expenses not involving cash flows:			
Loss (gain) attributed to discontinued operations	-	3,815	9,729
Depreciation and amortization	15,295	18,605	68,922
Company's equity in losses (earnings) of investee companies less of dividend received, net	(7,369)	5,067	6,815
Minority interest in results of subsidiaries, net	12,914	(19,655)	(68,985)
Gain on marketable securities and deposits, net	(15,133)	(11,452)	(91,597)
Expenses (income) from financing activities	2,309	(4,974)	8,959
Deferred taxes, net	1,635	(458)	*(10170)
Decrease in liability for employee severance benefits, net	(477)	(1,124)	(3,259)
Loss (gain) on sale and amortization of investments and assets, net	(27,783)	1,046	(17,022)
Other expenses	374	-	17,839
Changes in asset and liability items			
Decrease (increase) in trade receivables and other receivables	(63,758)	3,652	*(912)
Increase in inventory and in land business inventory holdings, net	(25,048)	(7,639)	-
Increase (decrease) in suppliers and service providers	2,058	(444)	24,801
	(105,011)	(13,561)	54,880

* Reclassified

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of March 2004

Annex B - Non-cash transactions

	For the three months ended		For the
	March 31 2004	March 31 2003	year ended December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
**Reported amounts	NIS thousands	NIS thousands	NIS thousands
Conversion of convertible bonds into Company shares	2,833	-	-
Purchase of treasury stocks and option warrants in exchange of redemption loans to employees	-	-	25,552
Proceeds from sale of investment in investee	-	-	1,397
Amounts receivable from sale of land, rental building and fixed assets	-	-	76,028
Purchase of fixed assets on credit	724	4,138	4,221
Investments in a subsidiary in respect of issuance of shares	-	-	36,575
Partial acquisition of subsidiary against the issuance of shares, option warrants and debentures to the minority	-	-	35,534
Investment in investee company by issuance of capital in a subsidiary	-	10,874	-

Annex C - Initially fully or proportionately consolidated companies and acquisition of activities

	March 31	March 31	December 31
	2004	2003	2003
	(Unaudited)	(Unaudited)	(Audited)
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
**Reported amounts	NIS thousands	NIS thousands	NIS thousands
Assets and liabilities of the subsidiaries as at date of consolidation			
Working capital, net (exclude cash and cash equivalents)	5,531	-	38,084
Investments, long-term receivables and fixed assets, net	(16,197)	-	(19,194)
Other assets and deferred expenses, net	(3,754)	-	(17,816)
Long-term liabilities	661	-	68,533
Investment in investee companies, net	-	-	1,580
Goodwill at acquisition date	-	-	(37,463)
	(13,759)	-	33,724

* Reclassified, including discontinued operations.

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of March 2004

Annex D - Companies formerly fully or proportionately consolidated no longer consolidated and activities sold.

	March 31 2004	March 31 2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	**Reported Amounts	Amounts adjusted to the effect of inflation in terms of NIS of December 2003	
	NIS thousands	NIS thousands	NIS thousands
Working capital, net (exclude cash and cash equivalents)	-	-	42,204
Investment and long-term loans	-	-	1,366
Fixed and other assets, net	-	-	14,944
Long-term liabilities	-	-	(6,101)
Minority interest	-	-	(25,050)
Balance of loans and investments	-	-	(10,622)
Loss on sale of issuance to third party	-	-	12,948
	<u>-</u>	<u>-</u>	<u>29,689</u>

* Reclassified, including discontinued operations.

** In respect of discontinuance of adjustment for the effect of inflation according to the CPI of December 31, 2003.

SHREM, FUDIM, KELNER AND COMPANY LTD.

REPORT OF THE BOARD OF DIRECTORS

AS AT MARCH 31, 2004

In accordance with the Securities Regulations (Periodic and Immediate Reports) – 1970, the Board of Directors is pleased to present herewith to the shareholders its report and the financial statements of Shrem, Fudim, Kelner & Company Ltd. (hereinafter – “the Company”) for the period ended March 31, 2004 (“the period under report” or “the quarter”).

1. The Company and its Business Environment

The Company and its subsidiaries (hereinafter – “the Group”) continued implementing their business strategy which mainly entails a plan for business and organizational focus. This plan is reflected primarily in Polar Investments Ltd. (hereinafter – “Polar Investments”) which is engaged in the fields of communications and technology, real estate and infrastructure, and trade and services.

As part of the plan, the Group makes efforts to refresh its investment portfolio and to identify new investments in its focal areas, including areas abroad (especially the U.S. and Europe), that will expand the ongoing business contribution and increase the potential for creating capital gains and realizing business opportunities in the capital market. At the same time the Group, and especially Polar Investments, is acting to realize its existing investments that do not concur with this strategy.

As part of this strategy of identifying new investments, the Company, Leader Holdings and Investments Ltd. (“leader”), Polar Investments and Urdan Industries Ltd. (“Urdan”) have in the past two years invested an amount of NIS 700 million in companies such as Ytong Industries, Dor Chemicals, Day Telecom, Nipson, Cimatron, EER, BSR, Mind, real estate in Manhattan, and others.

Concurrently, the Company has realized its investments in Hazera Genetics, Teldor Computer Systems, Yatzil, Hatzerot Hadar, Karmiel Center, and DS Securities for an amount of NIS 370 million.

During the reporting period and until the date of the preparation of the financial statements, Polar Investments continued to sell on the stock exchange marketable shares, mainly of technology companies, for a total amount of NIS 74 million, at a gain of NIS 18 million (of which NIS 14 million was included in the reporting period).

In addition, during the reporting period and until the date of the preparation of the financial statements, Leader and its privately held companies sold shares and options of publicly traded companies (mainly Leader, Technologies, Urdan, and Polar Investments), in return for NIS 60 million (NIS 36 million during the reporting period).

In view of the aforementioned, the market value proximate to the present date of the current holdings of Polar Investments in listed shares of principal investee and other companies such as TransClal, Nice, Mind, Arel Communications, Partner, Mivnei Ta’asiya and others, amounts to

NIS 460 million and reflects an increase of NIS 210 million in their market value at the end of the reporting period.

In April 2004, Leader and Polar Investments sold their entire holdings in Opti Canada on the Canadian exchange for amounts of NIS 7 million and NIS 45 million, respectively. The two companies reported pre-tax gains of NIS 5 million and NIS 31 million, respectively, to be reported in the financial statements of the second quarter 2004.

The aforementioned transactions and the reawakening of the capital markets resulted in profitability in 2004, such that the Company finished the quarter with income of NIS 11.5 million, compared with a loss of a similar amount in the same period last year.

In view of the above and under the assumption that the positive market trend continues, and in view of the continued effects of the efficiency measures and cost adjustments made in most of the investee companies, the Company expects the improvement in results of operations and the transition to profitability to continue during the coming quarters of 2004.

Notwithstanding the above, the unstable economic and security situation during the quarter continued to affect the results of the Group and its investees.

2. Financial Position, Finance and Liquidity

The effects of the improvement in the Company's liquidity position were reflected in, among other things, a reduction in the short and long-term liabilities of the Company and the private companies under its control in general, and their liabilities to banks and debenture holders in particular.

The Company's shareholders' equity as at March 31, 2004 totaled approximately NIS 181.8 million, which constituted 48% of the total balance sheet of the Company and the private companies it controls, an improvement when compared with shareholders' equity as at December 31, 2003 of approximately NIS 166.8 million, which constituted 44% of the total balance sheet.

The increase in shareholders' equity during the reporting period derived mainly from the net income of the Company in an amount of NIS 11.5 million and from the conversion of debentures into shares in an amount of NIS 2.8 million.

Set forth below is data from the consolidated balance sheet and the balance sheet of the Company and private companies which it controls (*), in millions of shekels of March 2004:

	As at March 31, 2004			As at December 31, 2003
	Consolidated balance Sheet	Company balance sheet	Balance sheet of Company and private companies it controls (*)	Balance sheet of Company and private companies it Controls (*)
Current assets	1,512.3	78.7	79.6	99.0
Investments and loans in investee (affiliated) and other companies	984.9	274.7	271.7	249.2
Real estate	535.6	–	–	–
Fixed assets	787.1	25.6	26.8	26.9
Other assets and deferred expenses	120.9	–	1.8	1.8
Total assets	3,940.8	379.0	379.9	376.9
Current liabilities	1,517.3	106.8	105.3	116.7
Long-term liabilities	1,807.1	90.4	90.6	93.1
Minority interest	420.8	–	2.2	0.3
Receipts on account of options issued by subsidiaries	13.8	–	–	–
Shareholders' equity	181.8	181.8	181.8	166.8
Total liabilities and shareholders' equity	3,940.8	379.0	379.9	376.9

(*) Balance sheet of the Company and the private companies it controls – means the consolidated balance sheet in which the public companies directly held by the Company are included on the equity basis (Leader and Shrem Fudim Kelner Technologies Ltd. (“technologies”)).

The main changes in the assets and liabilities of the Company and the private companies it controls are described below:

- Current assets totaled NIS 79.6 million as at March 31, 2004, compared with NIS 99.0 million at the end of 2003. The decrease in current assets derived mainly from a decrease in the volume of the marketable securities portfolio.
- Investments in and loans to investee and other companies totaled NIS 271.7 million as at the end of March 2004, compared with an amount of NIS 249.2 million at the end of December 2003. The increase derived from the share of the Company in income of investee companies (Leader and Technologies) in an amount of NIS 10.2 million and the increase in the investment of the Company in Leader, as described below.
During the reporting period, the Company converted debentures and exercised option warrants of Leader in a net amount of NIS 22.7 million (net of the sale of Leader shares in an amount of NIS 13.7 million).
- As at March 31, 2004, the short and long-term liabilities of the Company and the private companies it controls totaled approximately NIS 195.9 million, compared with NIS 209.8 million as at December 31, 2003. The decrease is explained by the conversion of debentures into capital in an amount of NIS 2.8 million during the quarter and, mainly, by the reduction of the liabilities to banks.

3. Operating Results

General

As mentioned above, the improvement in the capital markets, the efficiency measures taken and the focusing of the Group's business strategy all contributed to the improvement of the results of operations, both on the operating level and in the net income for the period. The Company and the private companies its controls ended the first quarter of 2004 with operating income of NIS 4.4 million, compared with operating income in the corresponding period of last year of NIS 1.2 million.

The increase in expenses during the period derived mainly from the provision for bonuses to executives and employees which are a derivative of the results of operations in the privately held investees.

Commencing in the reporting period, the Company implemented Accounting Standard No. 12 which deals with the discontinuance of financial statements adjustment. Therefore, the adjustment was discontinued as at January 1, 2004 (see also Note 1D of the financial statements).

The Company ended the reporting period with income of NIS 11.5 million, compared with a loss of NIS 9.2 million in the same period last year. The increase in income during the reporting period derived mainly from the increase in consulting revenues and from the share of the Company in the results of subsidiaries (mainly Leader).

Set forth below is data from the income statements of the Company and the private companies it controls, in millions of shekels of March 2004:

	Quarter I 2004	Quarter I 2003	Total 2003
The Company and private companies it controls (*)			
Revenues from consulting, management and participation in profits of funds	9.5	2.9	18.9
Income (loss) from long-term investments, net	(0.3)	(0.3)	1.4
Gain on marketable securities, net	4.5	5.1	34.7
Total other costs and expenses	(9.3)	(6.5)	(39.0)
Income before financing expenses	4.4	1.2	16.0
Financing expenses, net	(2.3)	(2.5)	(14.4)
Income (loss) after financing	2.1	(1.3)	1.6
Taxes on income	-	(0.2)	(2.2)
Company's equity in results of investee companies	10.2	(8.0)	(39.1)
Gain on decrease in percentage held	1.1	-	6.2
Minority share in results of subsidiaries, net	(2.2)	(3.1)	-
Income (loss) for the period	11.5	(9.2)	(32.9)

(*) Data of the Company and the private companies it controls – means the consolidated statement of income in which the public companies directly held by the Company are included on the equity basis (Leader and Technologies).

The operating results of the Company and the private companies it controls for the reporting period are recapped below:

- Revenues from services in the reporting period totaled NIS 9.5 million, compared with NIS 2.9 million in the corresponding period of 2003. The increase in revenues derived mainly from the share of the Company in management fees and participation in the income of the Sphere Fund to which the Company is entitled for the first time, as at the date of this report (see paragraph 4.9 below).
- The Company and the private companies it controls ended the reporting period with gains from marketable securities of NIS 4.5 million, similar to the amount earned during the same period last year, notwithstanding a certain weakness in the markets toward the end of the reporting period.
- The share of the Company in the income of investee companies during the reporting period amounted to NIS 10.2 million, deriving mainly from its share in the income of Leader and Technologies (during the same period last year – a loss of NIS 8 million).

- The total other costs and expenses amounted to NIS 9.3 million in the reporting period, compared with NIS 6.5 million in the first quarter of 2003. The net increase in costs in the reporting period derived, mainly, from an increase in the provision for bonuses to employees, which are based on the performance of the privately held companies and the consolidated results of the Company.

4. Holdings and Investments

4.1 Leader Holdings & Investments Ltd. (“Leader”)

Leader is a holding company whose major holdings are Polar Investments and Urdan. It is also engaged directly in rendering management, underwriting, and consulting services, handling securities issuances for entities interested in raising funds, and making feasible investments in various sectors of the Israeli economy.

The balance of Leader’s assets in the consolidated balance sheet as at March 31, 2004, amounted to NIS 3,668.8 million, similar in amount to December 31, 2003. The balance derives from the consolidation of the balance sheets of Polar Investments and Urdan.

Leader’s shareholders’ equity amounted to NIS 223.4 million as at March 31, 2004, compared to NIS 185.7 million as at December 31, 2003. The increase in Leader’s shareholders’ equity is a result of the net income for the reporting period in an amount of NIS 12.2 million and the conversion of debentures and exercise of options held by the Company. See paragraph 5.2 below.

As at March 31, 2004, the net asset value of the investment in Leader on the Company's books amounted to approximately NIS 163 million. As a result of the sale of shares, conversion of debentures and exercise of options during the reporting period, the Company’s effective percentage of holding in Leader’s share capital, was roughly 69.1%.

4.2 Capital market activity

4.2.1 Issuances, distribution of securities and brokerage

Operations in the capital market during the reporting period continued to reflect the awakening which began at the end of 2003. The Leader Group played a noticeable role in this awakening, mainly in the turnover of revenues from consulting, underwriting, brokerage, and issuance management services. These revenues totaled NIS 11.7 million during the reporting period, compared with an amount of NIS 1.7 million during the same period last year.

Leader Issuances (1993) Ltd. (hereinafter – Leader Issuances), a wholly-owned subsidiary of Leader, is involved in managing public issuances. During the reporting period and until the publication of this report, Leader Issuances was involved in 9 issuances, serving as the head manager of the underwriting consortium in 7 of them.

Since its establishment and up to the time of this report, Leader and Partners Investment House Ltd. (hereinafter – “Leader and Partners”), a wholly owned subsidiary of Leader, has managed private placements and private distributions of debentures and shares in a total amount in excess of NIS 9 billion, of which NIS 1.4 billion was during and subsequent to the reporting period.

In the reporting period the TA 100 index increased by 6.0% in real terms, while the Ma'of index increased in real terms by 3.8%.

4.2.2 DS Securities and Investments Ltd. (“DS Securities”)

DS Securities is engaged, primarily, in providing advisory services and management of the stock investment portfolios of its clients, as well as in the management of mutual funds, provident funds and continuing education funds. DS Securities is a member of the Tel-Aviv Stock Exchange (hereinafter – “the Stock Exchange”).

On November 9, 2003, the board of directors of DS Securities approved the merger of the mutual and provident fund portfolio management activity of the Berger Holdings (1992) Ltd. Group with the identical activity of the DS Securities Group.

During the first quarter of the year, DS Securities consummated the merger. The successful completion of the merger contributed to the improved results of operations of DS Securities.

As at March 31, 2004, after completion of the merger, as described below, the Company effectively holds 15.9% of the share capital of DS Securities and the equity value of the investment in DS Securities on the books of the Company amounted to NIS 9.6 million (the market value of these shares as at that date was NIS 20 million).

DS Securities concluded the reporting period with net income of NIS 2.4 million, compared with net income of NIS 1.0 million in the same quarter of 2003.

In May 2004, the board of directors of DS Securities resolved to distribute a dividend of NIS 0.26 per share, par value NIS 1 each (for a total of NIS 1,969 thousand).

4.3 Urdan Industries Ltd. (“Urdan”)

4.3.1 Areas of activity of Urdan

Urdan is a public company, the shares of which are traded on the Stock Exchange. It has direct and indirect holdings in a wide variety of industrial companies, and it is also directly engaged in industrial activities.

During the reporting period and thereafter, Leader and a wholly-owned subsidiary sold shares and option of Urdan, for an amount of NIS 23 million, at a pre-tax income of NIS 7.2 million (of which NIS 4.1 million was reported during the reporting period).

Due the aforementioned sales, Leader holds, directly and indirectly, as at the balance sheet date, 68.8% of the share capital of Urdan (63.1% as at the date of the publication of the statements). As at March 31, 2004, the investment in Urdan is recorded on the books of Leader and its wholly-owned subsidiary at the amount of NIS 106 million (including debentures in the amount of NIS 14 million).

Urdan finished the reporting period with net earnings of NIS 1.1 million, compared with a loss of NIS 3.0 million in the same period last year.

Most of the companies in the Urdan Group finished the reporting period with a profit, showing significant improvement when compared with the results of previous quarters.

During the reporting period, the effects of the efficiency measures taken by the subsidiaries of Urdan during the past year were felt, as well as the effect of the decline in shekel interest rates, all indications that the economy was coming out of the recession.

Under the assumption that the forecasts that the economy is indeed at the beginning of its way out of the recession are true, Urdan expects the results of operations of the Group Companies to be positively affected.

Urdan has holdings in a large number of companies, the most prominent of which are described below:

4.3.2 Orlite Industries (1959) Ltd. (“Orlite”)

Orlite is a wholly-owned subsidiary of Urdan and is itself a holding and investment company. Orlite’s activities are carried out through subsidiaries in the fields of component products, infrastructures and construction, paint and insulation products, coating products, and plumbing.

As at the balance sheet date, Urdan and Orlite effectively held 85.2% of the capital of Ytong (15.4% directly).

Ytong, the shares of which are traded on the Stock Exchange, is engaged, both directly and through wholly-owned and partly-owned companies, in the manufacture of a variety of Ytong products, building blocks, ready-made plaster, ready-made powder for use, insulation materials, glues and additives for building materials. Ytong is the controlling shareholder of, among other companies, Aloni Enterprises Ltd.

In addition, Ytong operates through Aloni (a company in which Ytong directly and indirectly holds 87.8% of the share capital), in the production and marketing of flooring stone and Terrazzo stairs, import, processing and marketing of natural marble, processed marble and granite, import and marketing of ceramics, sanitary utensils, parquet and polishing and shining materials for the marble and flooring stone industry. Regarding class and other actions filed against Aloni and others, there was no change in the description presented in the financial statements as at December 31, 2003.

In addition, Ytong operates through Univerkol, Hillel, Hoffman & Sons (“Univerkol”) (Ytong indirectly holds 55.9% of Univerkol’s share capital), a public company whose shares are traded on the Stock Exchange, which is engaged in the manufacture and marketing of a wide range of paints for various uses, as well as insulation materials, plaster products, polish products, industrial protective coatings and performance of projects.

Ytong concluded the reporting period with earnings of NIS 1.2 million, compared with a loss of NIS 5.6 million last year. The improvement in profitability derived mainly from the reduction in losses of the Aloni subsidiary and from improved profits in the Univerkol subsidiary.

4.3.3 Other holdings of Urdan

As at balance sheet date, the Company, Technologies, and Urdan hold 9%, 3.3%, and 21.2%, respectively, of the capital and control in a venture for application of advanced technologies for dealing with disposal of solid municipal waste ("EER"). In addition, a limited partnership of private investors managed by a subsidiary holds an additional 3.3%, and an additional 1.2% are held by other funds managed by the Company.

As at March 31, 2004, the cost of the investments of the Company, Technologies, and Urdan in the venture (before the share of the companies in the losses of the venture) was NIS 11 million, NIS 4.5, and NIS 27.7 million, respectively. The total investment of the other investors is NIS 50 million.

On March 1, 2004, EER signed a work protocol with Sumstar Group Corporation ("Sumstar"), a Chinese Government company, and with EER's Russian partners, the Korchtov Institute and the Radon Institute. Under the work protocol, Sumstar intends to order from EER and its Russian partners planning and construction work in China of plants for the treatment of medical waste and low-radiation radioactive waste. It was also agreed between the parties to the protocol that they would conduct negotiations on a detailed agreement during the second half of April 2004 which would stipulate the scope of the work and the manner in which it would be executed.

Should the transaction be consummated, EER intends on bringing in international financial and industrial entities having the expertise for construction of such plants, with EER being entitled to royalties in respect of the know-how and services it will render to these entities. Please note that EER has not guarantee that a binding agreement between the parties will actually be signed.

During March 2004, EER signed a number of agreements with Mr. Mokoto Takahashi (the "Japanese Investor"), whereby the Japanese Investor would invest an amount of U.S.\$ 5 million in EER (directly or through companies under his control) for 10% of the capital of EER (at a post-money value of U.S.\$ 50 million). According to the agreements, the Japanese Investor transferred to EER the amount of the investment. Concurrent with the signing of the agreements, a subsidiary was set up in Japan (the "Japanese Company"), owned jointly by EER and companies under the control of the Japanese Investor. According to a licensing agreement signed between EER and the Japanese Company, the Japanese Company will have sole rights to use EER's know-how in Japan for periods stipulated in the licensing agreement.

As a result of this transactions, the Company and Urdan had a profit of NIS 3.9 million and NIS 9.1 million, respectively, of which NIS 0.3 million and NIS 0.8 million, respectively, were reported during the reporting period, in accordance with Opinion No. 68 of the Institute of Certified Public Accountants in Israel. The balance of the profit will be reported at the higher of the following two

alternatives: equal installments over a three year period or an amount equal to the share of the Company and Urdan in the accumulated losses of EER.

Urdan effectively holds 16.6% of the share capital of Scoop Metal Trade and Technical Services Ltd. ("Scoop"), a public company the shares of which are traded on the Tel-Aviv Stock Exchange. Scoop is engaged in the importing and marketing of products and raw materials in the white metals industry, engineering plastic products and steel alloy products. Subsequent to the balance sheet date, Urdan sold 6.3% of the shares of Scoop in an off-market transaction, with its share in Scoop decreasing to 10.3%.

Scoop's net income for the reporting period amounted to NIS 12.4 million, compared with NIS 4.6 million in the same period last year.

.4 Polar Investments Ltd. ("Polar Investments")

4.4.1 Areas of activity of Polar Investments

Polar Investments, a public company, traded on the Stock Exchange, invests and manages investments in various sectors: communications, advanced technologies, real estate and infrastructures, trade, services, financing, and others.

As at the date of the financial statements, Leader held 51.6% of the capital of Polar Investments, after selling part of its holdings during the reporting period for an amount of NIS 13 million. The net asset value of the investment in Polar Investments on Leader's books is NIS 184 million.

Polar Investments reported net income of NIS 12.6 million during the quarter, compared with a loss of NIS 15.4 million during the same period last year. This was a result of the factors described above, including the awakening of the capital markets, a reduction in liabilities, efficiency measures taken, and the focusing of the company's business strategy.

A review of the major segments of activity of Polar Investments:

4.4.2 Communications and technologies

4.4.2.1 Polar Communications Ltd. ("Polar Communications")

Polar Communications is a public company, the shares of which are traded on the Stock Exchange, and which invests and manages investments in the areas of communications, media, computer systems, and communications technology. Its major investments include: Partner (2.4%), YES (8.13%), Mind (16.0%), Reshet (26%), Arel Communications (15.3%), Maximedia (50%), etc.

On March 25, 2004, subject to the approval of the general shareholders meeting of Polar Communications, the board of directors of Polar Investments approved the purchase by Polar Communications from Polar Investments of all of the shares of Koonras Technologies Ltd. ("Koonras") (described below), for an amount of NIS 79 million in cash and/or marketable securities. In addition, out of the balance of the shareholders

loans of NIS 43.8 million made by Polar Investments to Koonras, an amount of NIS 10 million would be repaid immediately subsequent to the completion of the transaction and the balance would be repaid in six equal semi-annual installments. The aforementioned balance of the shareholders loans includes an amount of NIS 10.2 million in respect of the purchase of the holdings of Polar Investments in the share capital of Ophirtech (42.5%) by Koonras in January 2004. The consideration for the transaction was approved by Polar Investments, as above, on the basis of, among other things, a fairness opinion of an external appraiser, whereby the value of Koonras exceeds the amount of the aforementioned consideration.

Polar Investments agreed with the joint chairman and C.E.O. of Koonras (the "C.E.O. of Koonras") that upon completion of the transaction and in exchange for the shares and options for 7.5% of the share capital of Koonras owned by him, the C.E.O. of Koonras would receive, from Polar Investments, shares in Polar Communications comprising 2.9% of the latter's share capital.

In addition, Polar Investments announced its intention, subject to completion of the aforementioned sale, to make a partial tender offer to the public for the purchase of up to 6.2% of the share capital of Polar Communications, at a price of NIS 13 per ordinary share of Polar Communications. The C.E.O. of Koonras announced that he would not partake in this tender offer.

On May 24, 2004, the general shareholders meeting of Polar Communications approved the aforementioned transaction and, accordingly, the sale of the entire control and ownership in Koonras Technologies to Polar Communications was completed. In this manner, the Group's communications and technology sectors were consolidated into Polar Communications, with the generation of a varied investment portfolio possessing a critical mass in these areas.

Polar Communications showed net income in the reporting period in an amount of NIS 14.4 million, compared with a loss of NIS 2.8 million in the same period last year.

Partner Communications Ltd. ("Partner")

Polar Communications owns a 2.4% share of Partner, a company which operates a mobile telephone network in Israel using the GSM method. Partner operates under license from the Israeli Communications Ministry.

In March 2004, Partner announced that it had signed a memorandum of agreement to obtain control and purchase 40% of the cable company, "Matav Communications Systems and Cable Ltd.," for an amount of U.S.\$ 137 million, subject to a number of material conditions. In May 2004, Partner announced that the period of time stipulated for reaching an agreement between the parties had expired, but, notwithstanding the above, the parties intend on continuing their efforts to reach an agreement. At present, there is no certainty that such an agreement will be reached.

The market value of the investment of Polar Investments in Partner proximate to the date of the preparation of the financial statements amounted to NIS 141 million and reflects an excess over book value on the books of Polar Investments of NIS 140 million.

D.B.S. Satellite Services (1998) Ltd. ("D.B.S." or "Yes")

D.B.S. operates multi-channel television broadcasting via satellite pursuant to a license granted to it by the Ministry of Communications. The services provided by Yes include multi-channel television pay broadcasts to subscribers, audio and information services and other interactive services. The services are transmitted via satellite using digital technology. The rate of holding of Polar Communications in the share capital of Yes is 8.13% (7.36% taking into consideration exercise of option warrants allotted in April 2004 to the shareholders of YES, including Polar Investments).

During the reporting period, Yes's revenues for the reporting period amounted to NIS 235.8 million, compared with revenues of NIS 193.9 million in the corresponding period in 2003. As a result of the increase in revenues, the operating losses of Yes fell, compared with the corresponding period in 2003.

In light of the aforementioned and taking into consideration the increase in financing expenses in the reporting period, Yes showed a loss of NIS 110.4 million, compared with a loss of NIS 119.9 million in the corresponding period last year.

As a result of Yes's losses, its shareholders' deficit and its working capital deficit as at March 31, 2004 amounted to NIS 2,916 million and NIS 1,801 million (including short-term bank credit in the amount of NIS 1,305 million), respectively.

Since Polar Communications reports its investment in Yes as a permanent investment on the cost basis, the losses of the latter do not in themselves have an impact on the financial statements of Polar Communications.

As at March 31, 2004, the balance of the investment of Polar Communications in Yes (mainly in shareholders' loans) on the books of Polar Communications amounted to NIS 110.0 million.

In March 2004, Polar Communications commissioned an external appraiser to prepare an update of the company valuation of Yes (which had previously been done in March 2003 by the same appraiser). Yes was valued at between U.S.\$ 255 million and U.S.\$ 365 million. Accordingly, and based on, among other things, transactions which have recently taken place in the multi-channel television industry, and on the updated business plan prepared by Yes, no provision for decline in value was included in the financial statements of Polar Communications in respect of its investment in Yes. The update of this company valuation was incorporated into the immediate report issued by Polar Communications for 2003.

As at the date of the approval of the financial statements, some of the conditions stipulated in the amendment agreement signed in August 2003 (the "Amendment Agreement") between YES and certain banks (the "Banks"), further to previous agreements signed between the parties. As a result, the banks have not yet released to YES the amounts they were supposed to have placed at its disposal in the first quarter of 2004 in accordance with the Amendment Agreement. YES is working with the banks to amend the suspending conditions and the milestones stipulated in the agreement.

In March 2004, as a result of, among other things, a report on YES's business position commissioned by Bezeq-the Israeli Communications Company Ltd. ("Bezeq" – the major shareholder of YES) from an outside economic consulting company, the board of directors of YES approved a multi-year work plan for 2004 and 2005. The economic report indicated that there is a negative gap between YES's financing plan and its actual financing needs. In accordance with the work plan approved by the YES Board, YES will require additional outside financing during the relevant years, beyond the amounts in the Amendment Agreement.

The board of directors of Bezeq approved an additional investment (beyond its share of the Amendment Agreement) in an amount of NIS 440 million, through the end of 2005, which would be gradually implemented in accordance with YES's needs under the work plan. In addition, the board of directors of Bezeq approved the immediate release of the balance of the investment under the Amendment Agreement. The additional investment that was approved is contingent on the development of the regulatory terms in the communications market, to the satisfaction of Bezeq, the continued release of the share of the banks under the Amendment Agreement, and the receipt of the necessary approvals.

The activities of Yes are contingent on the continued receipt of shareholders' loans as part of the Financing Agreement, including loans from Bezeq in accordance with the work plan of YES as described above. Yes Management estimates that the chances are good that Yes will succeed in arranging the sources of finance needed by Yes for the coming year.

Mind C.T.I. ("Mind")

Mind, part of whose shares are traded on the Nasdaq and on the Tel Aviv Stock Exchange, engages in the development and sale of software products and customer billing and management solutions for communications networks, which are based mainly on internet protocol (IP).

In the reporting period and until the date of preparing the financial statements, Polar Communications sold part of the shares of Mind on the Nasdaq in consideration of NIS 10.2 million and it reported a capital gain (before tax) of NIS 7.3 million, NIS 6.1 million of which was reported in the financial statements of the reporting period. Following the said sales the rate of holding of Polar Communications in the share capital of Mind declined from 18% to 16.%.

Pursuant to the dividend policy adopted by Mind to distribute its annual net income to its shareholders, in March 2004, Mind distributed a dividend of U.S.\$ 3.6 million, an amount equal to its net income for 2003.

The market value of the investment of Polar Communications in Mind as at the date of preparation of the financial statements amounted to NIS 71 million and reflects an excess of NIS 48 million over the value of the investment on the books of Polar Communications.

Reshet Communications and Productions Company (1992) Ltd. ("Reshet")

Reshet is engaged in the operation of commercial television broadcasts on the Second Channel under a concession that was granted to it. Polar Communications holds 26% of the rights to earnings and 27% of the voting rights in Reshet.

In May 2004, and further to the request of Reshet and Telad (a concessionaire of the Second Channel) to conduct negotiations pertaining to a possible merger between them for purposes of joint participation in the tender that is expected to be published in September 2004, the companies received the response of the Supervisor of Restrictive Business Practices, whereby the relevant date of a positive consideration of the merger would be September 2004. Accordingly, no negotiations are being currently conducted in respect of the merger.

Arel Communications Ltd. ("Arel")

Arel is engaged in the development and marketing of distance learning systems and is traded on a U.S. stock market. Following the sale on the stock market of part of Polar Communications shares in Arel during the reporting period and thereafter, for an amount of NIS 4.1 million, at a profit of NIS 3.5 million (NIS 1.0 million of which was during the reporting period), the percentage of Arel's share capital held by Polar Communications decreased to 15.3%.

The market value of Polar Communications' investment in Arel close to the date of the preparation of the financial statements amounted to NIS 23 million and reflects an excess of NIS 18 million over the book value of the investment on the books of Polar Communications.

4.4.2.2 Koonras Technologies Ltd. ("Koonras")

Koonras is a wholly-owned subsidiary of Polar Investments, specializing in investments in advanced technology and biotechnology companies. Koonras' main investments include: Nipson Digital Printing Systems Ltd. (94%); Nice Systems (0.9%); Cimatron (32.7%), Smartlink (14.8%) and others. See Note 3C2 of the financial statements.

Koonras's revenues derive from its French subsidiary, Nipson, a company engaged in the manufacture, sale and international marketing of digital printers for black and white commercial printings. Revenues from sales

and services presented by Koonras for the quarter totaled NIS 54.7 million, compared with NIS 57.2 million in the same period last year.

Nipson showed a loss for the reporting period in an amount of € 0.5 million, compared with net income in a marginal amount in the same period last year.

Nipson appointed an underwriter in London to look into the possibility of an issue to the public in London. Notwithstanding the above, there is no certainty that Nipson will go through with a public issue in London or in any other manner.

Koonras showed a loss in the quarter in an amount of NIS 5.1 million, compared with a loss of NIS 3.3 million in the same period last year. The loss shown by Konras for the reporting period derived mainly from results of operations of Nipson described above.

In May 2004, Koonras (indirectly) signed an agreement with certain investors for the receipt of a loan in an amount of up to € 4, which will be up for early repayment at the earlier of two possible dates: the consummation of an issuance of Nipson to the public, or six months after receipt of the loan. In the event that the public issue does not come to fruition during the six month period following receipt of the loan, Koonras (indirectly) will have the right to extend the repayment date of the loan by an additional six months. Koonras (indirectly) granted the investors options in a quantity equal to half of their investment, for exercise during a three year period, at an exercise price equal to 80% of the price of Nipson's public issuance.

The balance of the investment of Koonras (short and long-term) as at March 31, 2004 (solo) and its shareholders' equity at the same date, amounted to NIS 186.4 million and NIS 74.5 million, respectively.

4.4.3 Real estate and infrastructures

4.4.3.1 Polar Real Estate Ltd. (“Polar Real Estate”)

Polar Real Estate is the real estate division of Polar Investments and it is engaged in the promotion and improvement of real estate and in the development, marketing and execution of residential, office and commercial projects, the rendering and marketing of time-sharing services for vacation units as well as investments in real estate in Israel and abroad. Polar Investments holds approximately 71.3% of the share capital of Polar Real Estate.

Polar Real Estate and the banks have reached in principle agreements regarding a rescheduling of the repayment dates of some of its bank loans which were not granted as credit as part of project accompaniment, and, at the same time, it is principally financed by shareholder loans from Polar Investments. During the reporting period, Polar Investments granted additional shareholder loans to Polar Real Estate in an amount of NIS 12.0 million. As at March 31, 2004, the balance of the shareholder loans granted by Polar Investments to Polar Real Estate amounted to NIS 158 million.

When the various suspending conditions stipulated in agreements signed between Polar Real Estate, companies in the Shikun U'vinui Group and the Company in December 2003 were not fulfilled, as described in Note 3C3 of the financial statements, the said agreements lapsed. Notwithstanding the above, negotiations are being conducted for the signing of a new framework agreement.

With regard to the exposure of Polar Real Estate due to the decision of the Israeli High Court of Justice to void decisions 717, 727, and 737 of the Israel Lands Administration, and the transition provisions formulated by the Israel Lands Administration regarding this matter, there were no material changes from what was reported in the last annual financial statements of the Company.

In the reporting period, Polar Real Estate showed a loss of NIS 5.7 million, compared with a loss of NIS 7.7 million in the corresponding period last year.

4.4.3.2 Ophir Holdings Ltd. (“Ophir”)

Ophir is an investment and holding company and it is engaged mainly in the area of rental real estate. Ophir's main investments include: Mivnei Ta'asiya Ltd. (10.3%), Shemi Bar (22.2%), ADR House Partnership (70%), and others. The rate of Polar Investments' holdings in Ophir's share capital is 57.5%, and it is classified as a proportionately consolidated company in Polar Investments' financial statements in accordance with this percentage.

In the reporting period, Ophir showed net income of NIS 5.1 million, compared with net income of NIS 2.7 million last year. Most of the

income reported during the period derived from the receipt of a dividend from Mivnei Ta'asiya in an amount of NIS 4.1 million.

In the reporting period, Ophir sold part of its holdings in Mivnei Ta'asiya on the Tel Aviv Stock Exchange for an amount of NIS 21.2 million. As a result of this sale, its share in the capital of Mivnei Ta'asiya decreased to 10.3%, and Ophir reported an insignificant capital gain in its financial statements for the reporting period.

The market value of the investment of Ophir in Mivnei Ta'asiya as at the date of the drafting of the financial statements amounted to NIS 151 million, similar to its book value.

4.4.3.3 Hazera (1939) Ltd. (“Hazera”)

Hazera is a 50% owned subsidiary of Polar Investments and it is engaged mainly in the growth of vegetable seeds, other farm seed, and fresh vegetables, as well as handling the real estate assets it owns, including among others, the Shalem Ranch near the Mesubim exchange (Tel Aviv) and the Mivchor Ranch near the Plugot junction (Kiryat Gat).

During the reporting period, Hazera had sales of NIS 4.4 million and a loss of NIS 0.7 million, compared with sales of NIS 3.1 million and a loss of NIS 0.3 million in the same period last year.

4.4.3.4 Polar Infrastructures Ltd. (“Polard Infrastructures”)

Polar Infrastructures is a wholly-owned subsidiary of Polar Investments and specializes in investment in companies and operations in the fields of infrastructures, municipal services and water and sewage systems. Its major investments are as follows: M.G.A.R. Computerized Collection Center Ltd. (40%), City Pass Ltd. (held directly by Polar Investments) which was granted a concession to build, finance, and operate the light railway in Jerusalem (subject to the signing of a financing agreement for the project) and Aquize Smart Water Technologies Ltd. (62%).

In March 2004, Polar Investments and a third party sold 20% of City Pass in equal parts for an amount equal to the cost of their investments in City Pass to date. This agreement is subject to receipt of various approvals, among other things, from the authorities. In the event that the agreement comes to fruition, Polar Investments' share in the share capital of City Pass will decrease to 27.5%.

4.4.4 Trade and services

4.4.4.1 Polar Trade and Services Ltd. (“Polar Trade”)

Polar Trade is a wholly-owned subsidiary of Polar Investments and it conducts most of its operations through Day Telecom Ltd. (80%; hereinafter – “Day”). Day is engaged (directly and indirectly), mainly, in the import, sale, support and marketing of end-user cellular equipment in Israel, development, marketing and operation of pre-paid systems for

cellular telephones, and is active in Italy in the area of development, manufacture, and marketing of communications transmission products and cellular telephones (hereinafter – “the Day Italy”).

Polar Trade’s revenues in the reporting period amounted to NIS 92.8 million, compared with revenues of NIS 33.2 million in the corresponding period last year. The increase in revenues derived mainly from the increase in the frequency of orders from a major customer of Day in Israel, and from the consolidation of the revenues of Day Italy commencing with the reporting period.

In May 2004, Polar Investments sold 7.66% of its holdings in Polar Trade for an amount of € 4.6 million, to a third party who is also a shareholder (20%) in Day. As part of the sales agreement, the investor was granted a Put option to sell to the Company by March 31, 2005 its holdings in Polar Trade and Day for an amount of € 1 million. Polar Investments decided to designate most of the consideration for financing the current operating needs of Day Italy, which operations are currently in their initial stages of development.

Concurrently, Day indirectly purchased from a related party to the investor, for an immaterial amount, a liability of Day Italy, the value of which in Day’s consolidated financial statements (the “Day financial statements”), amounted to € 13 million.

As a result of the above, the entire amount of the aforementioned liability was written off in the Day financial statements, and concurrently, the entire unallocated excess cost generated on the initial consolidation of Day Italy in the Day financial statements as at December 31, 2003 was also written off. The balance that was left was deducted from the balance of non-monetary assets of Day Italy, relative to their fair value as at December 31, 2003 and will be expensed concurrently with consumption or depreciation of these assets.

The profit earned by Polar Investments, in an amount of NIS 24 million, as a result of the sale of Polar Trade shares, as above, (taking into consideration the aforementioned option), will be presented as deferred income in the financial statements of Polar Investments and will be amortized over the higher of two amounts – either over a three-year period or until an amount equal to the share of Polar Investments in the accumulated losses of the Day Italy activity (should such losses be incurred).

The ramifications on Leader’s business results during the reporting period amounted to NIS 2.5 million.

4.4.4.2 Transclal Trading Ltd. (“Transclal”)

Transclal is a public company, the shares of which are traded on the Tel-Aviv Stock Exchange, which is engaged by itself and through companies which it owns, in the area of customs clearing and supervision services, international deliveries by air and by sea, inland transport, maritime

shipping, logistics and financing to its customers. The rate of Polar Investments' holding in Transclal is 39.7%.

Transclal reported revenues in the reporting period (including financing) in an amount of NIS 19.1 million and net income of NIS 3.6 million, compared with similar amounts in the corresponding period last year.

In the reporting period, Transclal distributed a dividend to its shareholders in the aggregate amount of NIS 3.5 million.

In March 2004, Transclal's board of directors decided to convene an extraordinary meeting of its shareholders (the "Meeting") in order to approve a special tender offer, whereby Transclal will offer to purchase from all of its shareholders up to half of the quantity of shares of Transclal held by them (28% of Transclal's current share capital)(the "Transclal Shares"), all in accordance with specifications to be published by Transclal following receipt of approval of the Meeting and approval by the Court of this tender offer. The price per share in the offer will be NIS 8.156 (subject to adjustment due to dividends to be distributed). The C.E.O. of Transclal, who currently holds 43.5% of Transclal's share capital, announced that he has no intention in participating in the purchase offer.

Polar Investments announced its intention to participate in the purchase offer. In the event that it is carried out, Polar Investments expects to receive an amount of NIS 22.2 million and it will include a pre-tax capital gain of NIS 4.9 million on the decrease in the percentage held in Transclal from 39.7% to 27.6%.

As at the date of this report, the necessary approvals were procured for consummation of the purchase offer. In accordance with the comments of and deliberations with the Israel Security Authority, this purchase offer, including the terms thereof, will be resubmitted for deliberation at the meetings of the board of directors and audit committee of Transclal, with the necessary changes in light of the comments of the Israel Securities Authority.

In addition, Polar Investments and the C.E.O. of Transclal reached an agreement in principle which is subject to approvals and suspending conditions, including among other things, that Polar Investments participates in the purchase offer to the full extent of its holdings. For more information regarding the agreement, including the option that Polar Investments will grant the C.E.O. of Transclal, see Note 3C6 of the financial statements.

In May 2004, Polar Investments sold shares of Transclal for an amount of NIS 4.2 million, at a pre-tax gain of NIS 1.3 million, to be reported in the financial statements of the second quarter of 2004. As a result, the share of Polar Investments in Transclal decreased from 43.7% to 39.7%.

The market value of the investment of Polar Investments in Transclal close to the date of the drafting of the financial statements amounted to

NIS 44 million and reflects an excess of NIS 16 million over the value on the books of Polar Investments.

4.4.4.3 Hazerot Hader Ltd. (“Hazerot Hader”)

In March 2004, upon receipt of the approval of the Supervisor of Restrictive Business Practices, Polar Investments completed the sale of all of its holdings (46%) in Hazerot Hader, a company engaged in the area of protected apartments for senior citizens, for an amount of NIS 21.4 million, including the endorsement to the purchaser of debentures the Company has toward Hazerot Hader.

Following the completion of the sale, a pre-tax capital gain of NIS 18.7 million was included in the consolidated financial statements for the first quarter of 2004. The effect of this sale on the results of operations of Leader for the reporting period, including in respect of the allocation of excess cost, amounted to NIS 4.6 million.

4.4.5 Additional investments

Dor Chemicals Ltd. (“Dor”)

Dor is a public company, the shares of which are traded on the Tel-Aviv Stock Exchange, which operates, mainly, outside of Israel in the manufacturing, marketing and selling of various kinds of multi-layer polypropylene sheets that are used as packaging and wrapping material for the food, tobacco, medical instrument industries, etc. Polar Investments holds 10.7% of the shares of Dor.

In Dor’s 2003 financial statements, long-term loans amounting to NIS 1,232 thousand were classified as short-term liabilities, due to the failure of one of Dor’s subsidiaries (hereinafter – the “Subsidiary”) to comply with one of the financial conventions set down regarding those loans. In their auditors’ report on the 2003 financial statements, Dor’s auditors drew attention to the possibility that a call for immediate repayment of the loans may raise a significant uncertainty as to the ability of the Subsidiary to continue operating as a “going concern”. At present, the banking institutions have not yet made an immediate demand for repayment of the loans.

The Subsidiary requested from the lender banks that they set out new financial conventions to be based on the Subsidiary’s updated business plan that was submitted to the banks in March 2004, which conventions management of the Subsidiary believes the company will be able to meet.

As at the date of approval of these statements, the banks are having outside consultants assess the aforementioned business plan.

The market value of the investment of Polar Investments in Dor close to the date of the drafting of the financial statements amounted to NIS 20 million, compared with the value on the books of Polar Investments which amounted to NIS 38 million. Management of Polar Investments believes that, as at the date of the preparation of the report, the difference between the market value of the investment of Polar Investments in Dor and its book value does not reflect a permanent decline in value.

4.5 Kamor Ltd. (“Kamor”)

Kamor is active directly and through its subsidiaries in a number of sectors, the principal ones being: vehicle imports, real estate, finance, and shipping.

In the area of vehicles, Kamor holds 71% of Kamor Motor Vehicles, which is engaged in the importing and marketing of motor vehicles and spare parts (BMW). In the real estate area, Kamor holds a number of rental real estate properties as well as real estate under development which is designated for rent.

Kamor completed the reporting period with net income of NIS 4.2 million, compared with net income of NIS 1.1 million in the same period last year.

During the reporting period, Kamor’s turnover amounted to NIS 135 million, compared with NIS 85 million during the same period last year.

As at balance sheet date, Leader held 23.3% of Kamor's share capital (21.0% as at the date of publication of the statements). The investment in Kamor is recorded on the equity basis in the books of Leader and, as at March 31, 2004, it amounts to NIS 26.2 million.

Subsequent to the balance sheet date, Kamor raised an amount of NIS 47 million through an issuance of debentures. Leader Issuances serves as the leader of the underwriters consortium for this issuance.

4.6 BSR Europe Ltd. (“BSR”)

BSR, a public company whose shares are traded on the Stock Exchange, is engaged through its investee companies in the initiation, development, construction, rental, management and improvement of various projects in the field of real estate in six countries in Eastern and Central Europe. BSR operates in two main investment sectors in the real estate area – investment in rental properties and the initiation of office and residential projects.

As at March 31, 2004, BSR has invested or committed to invest in real estate projects the amount of U.S.\$ 800 million.

BSR completed the reporting period at the break-even point, compared with a loss of NIS 3.7 million in the comparable period last year.

During the reporting period, Leader invested an amount of NIS 2 million in shares and options of BSR, with its percentage of holdings in BSR increasing to 31%.

The investment in BSR on the books of Leader, as at March 31, 2004, amounted to NIS 63.5 million, including an investment of NIS 31.1 million in debentures.

In February 2004, BSR published a prospectus whereby it raised NIS 60 million by way of issuance of debentures and options. Leader Issuances served as the manager of the consortium of underwriters for this issuance.

BSR is currently negotiating for the sale of buildings in Bratislava. See Note 3B2 of the financial statements.

4.7 A.M.S. Electronics Ltd. (“AMS”)

AMS is engaged mainly in the assembly of electronic components on printed circuit boards. As part of the service it renders to its customers, it is also involved in the assembly of complementary components.

AMS finished the reporting period with net income of NIS 3.4 million, compared with a loss of NIS 2.2 million in the same quarter last year.

As at the balance sheet date, the Company effectively holds 21% of the capital of AMS. The investment in AMS on the books of the Company, as at March 31, 2004, amounted to NIS 6.2 million, after the cancellation of the provision for decline in value recorded in 2003.

4.8 Advanced technologies and management of venture capital funds

4.8.1 Shrem, Fudim, Kelner – Technologies Ltd. (“Technologies”)

Technologies invests in various fields of technology, in companies that invest in entities engaged in technology, in companies which themselves invest in venture capital funds and in companies that manage hi-tech investment funds. Technologies is also engaged in the provision of advisory and management services to corporations engaged in technology fields.

The beginning of 2003 was characterized by the continued decrease in value of the technology companies on the capital markets and by the continued and worsening slowdown in venture capital investments. As a result, the ability of technology companies to raise capital or to be purchased by leading public companies whose own market value was significantly reduced, was also reduced. In the second half of 2003, a positive change both in the financial markets and the fields of technological activity was noticeable and the trend continued during the reporting period. This followed years of a continued slowdown in the capital markets in general and the venture capital industry in particular.

Technologies ended the reporting period with net income of NIS 1.2 million, compared with a loss of NIS 1.4 million in the same period last year. The income derived partly from the share of Technologies in the income of an affiliated company (ADT), from financing income, and from gains on marketable securities in respect of the share of Technologies in the Sphere Fund.

During the reporting period, Technologies had net financing income of NIS 1.2 million, compared with net financing expenses of NIS 1.3 million in the same period last year. The net financing income during the reporting period derived from the increase in the exchange rate of the U.S. dollar during the reporting period (by 3.4%).

As at March 31, 2004, the shareholders' equity of Technologies amounted to NIS 80.7 million, compared with NIS 78.5 million as at December 31, 2003, and constituted 57% and 56%, respectively, of the total balance sheet. The increase in shareholders' equity in the reporting period derives, mainly, from the net income of the period.

The net asset value of the investment in Technologies on the books of the Company, as at March 31, 2004, amounted to NIS 47.9 million. The Company holds a 61.8% interest in Technologies (60.6% close to the publication of this report).

The policy of Technologies is to maintain an operational breakeven so that its current revenues, which amounted to NIS 4.5 million during the reporting period, are equal to or higher than its salary and salary-related expenses, general and administrative expenses and the management fees paid to the Company, which amounted to NIS 4.2 million.

We present below the major changes in the investments of Technologies:

- During the reporting period, the Pitango 2 Fund, managed by DS Polaris Ltd. (a subsidiary of Technologies), set up a continuation fund of U.S.\$ 10 million. The aim of the fund is to continue investing in companies of Pitango 2 which have potential for business development. The share of DS Polaris in the continuation fund is U.S.\$ 0.5 million. As manager of the fund, DS Polaris is entitled to receive a “success fee”.
- During the reporting period, Technologies invested, in accordance with the Platinum Fund’s request for money, an amount of U.S.\$ 840 thousand, comprising 6% of Technologies’ commitment to the Platinum Fund (managed by Technologies). As at the date of the publication of this report, Technologies’ total investment in the Platinum Fund amounted to U.S.\$ 7.3 million.
- For purposes of the 2003 financial statements, an overall valuation of the worth of Persay Inc. was performed by an external appraiser. The valuation served as the basis for determining the book value of Persay as at the balance sheet date and the valuation was attached to Technologies financial statements as at December 31, 2003. The value determined for Persay in the aforementioned valuation was between NIS 12.9 million and NIS 16.4 million.
- **Advanced Cutting Technologies (“ADT”)** is engaged in manufacturing cutting equipment for the microelectronic market and the blades used in such equipment. The Technologies holds 23% of the issued and paid in capital of ADT.

During the reporting period, the board of directors of Technologies approved the sale of 20% of its investment in ADT (comprising 5.8% of the issued and paid-in capital of ADT) to the Platinum Fund, a related party, for an amount equal to the cost of the investment and part of the future graded “success fee” to be earned by the Platinum Fund from ADT for a period of up to nine months. The transaction was consummated during the reporting period.

Commencing in the fourth quarter of 2003, Technologies began recording its share in the income of ADT. During the reporting period, the share of Technologies in the net income of ADT amounted to NIS 0.8 million.

Proximate to the publication of the report, ADT submitted a draft prospectus for its IPO on the Tel Aviv Stock Exchange.

- **Danbar Technologies Ltd. (“Danbar”) (percentage held 10.8%)**

As part of its preparation of the 2003 financial statements, and as part of the assessment of the investment of Technologies in Danbar, an overall assessment was made of the book value of Danbar’s venture capital investments, with the assistance of an external appraiser. The appraisal served as the basis for determining the book value of Danbar’s venture capital investments as at the balance sheet date and it was attached to the financial statements of Technologies as at December 31, 2003. These investments were valued at an amount of between NIS 36.3 – 41.2 million. The value of Technologies’ share in this assessment is between NIS 3.9 – 4.4 million.

- **E.E.R.** – for more information on Technologies investment, see paragraph 4.3.3 above.

4.8.2 Leader Tech Ltd. (“Leader Tech”)

Leader Tech, a public company whose shares are traded on the Stock Exchange, is engaged, both directly and indirectly, in the acquisition, holding and realization of entities, whose main fields of activity are venture capital and technology, including communications, internet, biotechnology, computers, etc. It also invests in companies that themselves invest in other entities that are engaged in similar activities.

Leader Tech concluded the reporting period at the break-even point, similar to the results of the same period last year.

As at balance sheet date, Leader held 66.5% of the share capital of Leader Tech. The net asset value of the investment in Leader Tech on Leader’s books, as at March 31, 2004, amounted to NIS 22.8 million.

4.9 SFK – Kanaf 2000 Financing Ltd. (“Kanaf 2000”)

Kanaf 2000 is engaged in investment portfolio consulting, financial advice and planning, management of a circle of clients and marketing initiations to its clients.

Since inception, Kanaf 2000’s circle of clients have participated in investments in, among other things, real estate in Europe in an amount of NIS 75 million (mainly Eastern Europe), real estate in the U.S. in an amount of NIS 15 million, structured deposits in an amount of NIS 33 million, and investments in technological fields in an amount of NIS 9 million. The turnover regarding which Kanaf 2000 provided consultancy services is estimated at NIS 400 million.

Kanaf 2000 is held by the Company (indirectly) at a percentage of 75%.

4.10 Sphere Fund (“Sphere”)

The Sphere Fund was set up on January 1, 2004, in accordance with the approval of the Company’s board of directors to set up funds for investing in marketable securities, in a total amount of U.S.\$ 50 million (the “Fund”). The Fund is managed by a management company controlled by the Company, together with the former Nostro managers of the Company. The Company is entitled to management fees of 1.5% of the volume of the Fund and 20% of its profits, as defined in the agreement for the investment in the Fund. The former Nostro managers are entitled to half of the management fees and profits of the management company.

The Sphere Fund finished the reporting period with pre-tax income of NIS 17.2 million. The share of the Company, Technologies, and Polar Investments in this income amounted to NIS 7.8 million. The net shekel yield of the fund during the quarter amounted to 9.2%, versus the increase in the Tel Aviv 100 index which increased by 2%, and the decrease in the NASDAQ by 4%.

4.11 Shrem, Fudim, Kelner – Financing and Projects Ltd. (“Financing and Projects”)

The Company holds 66% of the share capital of Financing and Projects, which is engaged mainly in consulting in the area of investment banking. For information regarding the agreement between Financing and Projects and BSR, see Note 3B2 of the financial statements.

In addition, during the reporting period, Financing and Projects served as a consultant for fundraising for other companies, including € 18 million for the Angel Construction and Development Ltd. Group.

5. Major Events During the Reporting period

- 5.1** During the reporting period, NIS 3,000 thousand par value debentures (series B) of the Company were converted into 375 thousand shares of the Company, par value NIS 1 each.
- 5.2** During the reporting period, the Company converted 11,275 par value debentures into 1,409,375 shares of Leader. In addition, the Company exercised all of the series I options it held into 3,733,150 par value shares of Leader, for an amount of NIS 15 million.
- 5.3** In December 2003, Leader signed a memorandum of understanding with a foreign investor (hereinafter – the “Investor”) to grant a loan to Leader in an amount of NIS 60 million,

convertible into shares of Polar Investments, as detailed below. The loan is linked to the U.S. dollar and bears interest at a rate of 5% per annum. The principal is repayable on December 31, 2008, with interest payable annually on December 30.

The Investor has the right to demand repayment of the loan at any time in the form of 800,000 shares of Polar currently owned by the Company. Those shares will comprise 13.55% of the capital rights in Polar Investments following the conversion. The Company will repay the loan at its maturity date by transferring to the Investor the aforementioned shares of Polar, unless it is decided to repay the loan in cash. In addition, at the time the loan is granted to the Company, the Investor will receive 120,000 non-negotiable options exercisable into shares of Polar Investments owned by the Company, until December 25, 2008, at an exercise price of NIS 75 in cash, linked to the U.S. dollar.

At the same time, Polar Investments signed a memorandum of understanding with the Investor, to grant a loan to Polar Investments, which can be repaid with treasury shares of Polar Investments which will comprise 13.55% of the capital rights in Polar Investments following the conversion. The agreement also grants the Investor 80,000 non-negotiable options which are exercisable into treasury shares of Polar Investments. The terms of the loan, the exercise period for the options and the exercise price are identical to the terms in the memorandum of understanding with Leader, as outlined above.

Assuming that all of the aforementioned loans are converted and all of the options exercised, the Investor will hold 30% of the issued and paid in share capital of Polar Investments and the Leader will hold 28% of the issued and paid in share capital of Polar Investments.

Completion of the transactions detailed above are subject to the signing of a detailed agreement between the parties, which is contingent on the carrying out of examinations and receipt of all of the required approvals. The period stipulated in the memorandum for signing a detailed agreement has lapsed, but the parties are still conducting negotiations. There is no certainty that an agreement will actually be signed.

5.4 In February 2004, following receipt of court approval of a distribution that does not pass the "income test" < Ytong distributed a dividend in an amount of NIS 80 million. The shares of Urdan and Orlite in the distribution were 15.4% and 68.7%, respectively.

5.5 Polar Investments completed receipt of additional long-term credit frameworks from banks, in a total amount of NIS 136 million (mostly unutilized). It is making efforts to anchor its in-principle agreement with an additional bank in a written agreement for the receipt of an additional credit framework in an amount of NIS 46 million.

6. Contributions

The Company and its parent company contribute together, in equal portions, in the framework of the DS Fund, which is a registered association recognized as a not for profit entity. The main aim of the association as was determined upon its establishment is as follows: "to establish a fund in Israel for making contributions to charity organizations and activities, to institutions for the needy and indigent, to educational, sport, art, science and research institutes, student scholarships, health, welfare and medicine". In the reporting period, the amounts of the contributions made by the Company and the consolidated group (including the contributions of subsidiaries of the Company) were NIS 56 thousand and NIS 210 thousand, respectively. In 2003, the amounts of the contributions made by the Company and the consolidated group totaled NIS 314 thousand and NIS 1,215 thousand, respectively.

7. Qualitative Report on Exposure to Market Risks and their Management

There were no significant changes in the exposure of the Company to market risks and the manner in which such risks are managed, when compared with the description presented in the Company's latest annual financial statements and the accompanying report of the board of directors.

8. Derivative Transactions

A subsidiary of Urdan has "call" options for the purchase of dollars against shekels as follows: U.S.\$ 7,500 thousand at exercise rates ranging between 4.516 and 4.69, with a fair value of NIS 254 thousand, and "put" options in the total amount of \$7,500 thousand at exercise rates of 4.40, the fair value of which is a liability of NIS 59 thousand. These transactions are for the period until August 31, 2004. The maximum holding of Aloni in derivatives was \$ 7,500 thousand "call" options and \$ 7,500 thousand "put" options for March 31, 2004. The transactions are intended for hedging purposes against the exposure in the area of foreign currency supplier credit.

Another subsidiary of Urdan has open forward transactions as at March 31, 2004, as follows: \$ 600 thousand, and an additional € 600 thousand.

The abovementioned transactions are for a period of up to a year and are designated for hedging purposes. Their fair value is NIS 33 thousand. The maximum holding of the subsidiary in derivatives during the reporting period was an amount of NIS 4,647 thousand, at March 29, 2004 until March 31, 2004. The transactions are intended for hedging purposes against the exposure in the area of foreign currency supplier credit.

At the balance sheet date, Leader and Polar Investments do not have significant investments in financial derivatives.

In addition to the above, the Company and Leader, directly and through a subsidiary of theirs, are active in the "Ma'of" derivatives market through the purchase and sale of financial derivative instruments. The average annual exposure as a result of these transactions in the reporting period did not exceed NIS 10 million, for each one of them.

9. **Linkage Basis Report (in reported NIS millions):**

	Financial balances			Non-financial balances	Total
	In foreign currency or Linked Thereto	Linked to the CPI	Unlinked		
As at March 31, 2004					
Assets:					
Current assets	414.1	24.8	694.2	379.3	1,512.4
Real estate	-	-	-	535.6	535.6
Long-term investments and loans	92.9	186.7	83.7	1,529.6	1,892.9
Total	507.0	211.5	777.9	2,444.5	3,940.8
Liabilities:					
Current liabilities	172.2	157.8	1,160.4	27.0	1,517.4
Long-term liabilities	148.1	1,030.0	599.7	29.3	1,807.1
Minority interest and options in subsidiaries	-	-	-	434.6	434.6
Total	320.3	1,187.8	1,760.1	490.9	3,759.1
Total balance, net	186.7	(976.3)	(982.3)	1,953.6	181.8

Linkage Basis Report (in NIS millions of December 2003):

	Financial balances			Non-financial balances	Total
	In foreign currency or linked thereto	Linked to the CPI	Unlinked		
As at December 31, 2003					
Assets:					
Current assets	402.0	63.8	687.7	347.1	1,500.6
Real estate	-	-	-	530.4	530.4
Long-term investments and loans	115.8	231.0	33.1	1,553.5	1,933.4
Total assets attributed to continuing operations	517.8	294.8	720.8	2,431.0	3,964.4
Total assets attributed to discontinued operations	-	-	-	15.6	15.6
Total	517.8	294.8	720.8	2,446.6	3,980.0
Liabilities:					
Current liabilities	164.6	206.6	1,176.9	23.5	1,571.6
Long-term liabilities	121.1	1,042.7	628.1	29.6	1,821.5
Minority interest and options in subsidiaries	-	-	-	404.8	404.8
Total liabilities attributed to continuing operations	285.7	1,249.3	1,805.0	457.90	3,797.9
Total liabilities attributed to discontinued operations	-	-	-	15.3	15.3
Total	285.7	1,249.3	1,805.0	473.2	3,813.2
Total balance, net	232.1	(954.5)	(1,084.2)	1,973.4	166.8

The Company wishes to thank the employees for their contribution to the Company and the shareholders for their loyalty to it.

Robin Zimmerman
Deputy Chairman of the
Board of Directors

Y. Fudim
CEO and Member of the
Board of Directors

May 30, 2004