

SHREM, FUDIM, KELNER AND COMPANY LTD.

REPORT OF THE BOARD OF DIRECTORS

AS AT JUNE 30, 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 six-month and three-month periods ended June 30, 2004 (“the period of the report” and “the quarter”, respectively).

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 while expanding the Group’s activities overseas (mainly in the United States and Europe). This plan, the fruits of which are already visible in the period of the report, is reflected primarily in Polar Investments Ltd. (hereinafter – “Polar Investments”), which is engaged in the fields of communications and technology, real estate and infrastructures, and commerce and services.

During the period of the report and up to the date of its issuance, Polar Investments continued to sell marketable shares on the stock exchange, mainly in technology companies, for an aggregate consideration of NIS 81 million and a gain of NIS 22 million.

During the period of the report and up to the date of its publication, the Company and private companies it controls sold shares and options in publicly traded companies (mainly, Leader Technologies Urdan, Polar Investments and Opti Canada) for an aggregate consideration of NIS 98 million and a gain of NIS 22 million.

In light of that stated above, the market value (proximate to the publication date of this report) of Polar Investments’ current holdings in listed shares of principal investee and other companies such as, Nipson (described below), Nice, Mind, Arel Communications, Partner, Mivnei Ta’asiya and others, amounts to NIS 585 million and reflects an increase of NIS 260 million in their market value compared with the value of these holdings as recorded in its books at the end of the period of the report.

The Group intends to continue the trend of selling and refreshing its investment portfolio, mainly with respect to marketable investments, while floating surplus value, significantly decreasing current credit and improving the capital structure.

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, and they realized pre-tax gains that were included in the financial statements for the second quarter of 2004, in the amounts of NIS 5 million and NIS 31 million, respectively.

In July 2004, Nipson completed an issuance of its shares on the stock exchange in London (AIM), in the aggregate amount of \$18.4 million (\$16.4 million net) including \$3.7 million from a subsidiary (indirect) of Kuners Technology Ltd. (hereinafter – “Kuners Technology”). In the financial statements of Polar Investments for the third quarter of 2004 a gain from issuance to a third party is expected to be included in the amount of NIS 29 million (portion of Polar Investments).

The aforementioned transactions and the recovery of the capital markets in the period of the report, resulted in the Company finishing the period of the report and the quarter with income of NIS 28.9 million and NIS 17.4 million, respectively, compared with a loss of NIS 17.0 million and NIS 7.8 million in the corresponding periods, respectively.

The Company expects that the improvement in its results of operations and the transition to profitability will continue in the upcoming quarters of 2004. Nonetheless, the effect of the instability with respect to the economic activities and the security situation in Israel on the operating results of the Group and its investees continued during the period of the report.

2. Financial Position, Sources of Financing and Liquidity

As at the balance sheet date, the financial liabilities (long and short-term) of the Company and private companies it controls to banks, to others and in respect of debentures less liquid resources totaled NIS 115 million, about the same as at December 31, 2003.

The Company's shareholders' equity as at June 30, 2004 totaled approximately NIS 200.7 million, which constituted 45% of the total balance sheet of the Company and private companies it controls. The shareholders' equity as at December 31, 2003 totaled NIS 166.8 million, which constituted 44% of the total balance.

The increase in the Company's shareholders' equity in the period of the report derived mainly from the Company's net income in the amount of NIS 28.9 million, conversion of debentures and options into Company shares in the amount of NIS 3.3 million, and sale of Company shares that were held by it and by a subsidiary for a consideration of NIS 1.9 million.

Presented below is data from the consolidated balance sheet and the balance sheet of the Company and private companies it controls (*) (in millions of reported shekels of June 2004):

	As at June 30, 2004			As at December 31, 2003
	Company balance sheet	Consolidated Balance Sheet	Balance sheet of Company and private companies it controls (*)	Balance sheet of Company and private companies it controls (*)
Current assets	1,500.3	132.1	129.5	99.0
Investments in companies and loans to investee (affiliated) and other companies	1,001.3	294.4	289.4	249.2
Real estate	541.2	-	-	-
Fixed assets	779.2	25.3	26.6	26.9
Other assets and deferred expenses, net	118.3	-	1.5	1.8
Total assets	3,940.3	451.8	447.0	376.9
Current liabilities	1,569.4	178.6	172.2	116.7
Long-term liabilities	1,698.0	72.5	72.6	93.1
Minority interest	458.7	-	1.5	0.3
Receipts on account of options issued by subsidiaries	13.5	-	-	-
Shareholders' equity	200.7	200.7	200.7	168.8
Total liabilities and shareholders' equity	3,940.3	451.8	447.0	376.9

(*) In this report, "the Company and private companies it controls" refers to the consolidated balance sheet which includes the publicly traded companies controlled by the Company (Leader and Shrem Fudim Kelner Technologies Ltd. (Technologies)), on the equity basis.

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

- The current assets totaled NIS 129.5 million as at June 30, 2004, compared with NIS 99.0 million at the end of 2003. The increase in current assets was reflected mainly in an increase in the scope of the marketable securities portfolio, the value of which increased during the period.
- Investments in and loans to investee and other companies totaled NIS 289.4 million as at the end of June 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 29 million and the increase in the Company's investment in Leader, as described below.

During the period of the report, the Company converted debentures and exercised option warrants of Leader in a net amount of NIS 22.7 million (and sold shares of Leader for NIS 13.7 million). Regarding debentures acquired and converted subsequent to the balance sheet date, see Section 5.2, below).

- As at June 30, 2004, the short and long-term liabilities of the Company and private companies it controls totaled approximately NIS 244.8 million, compared with NIS 209.8 million as at December 31, 2003.

3. Operating Results of the Company

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 the Group's operations.

The Company and private companies its controls are showing total revenues from consulting, management and participation in the earnings of funds in the period of the report of NIS 19.8 million (compared with NIS 8.2 million in the corresponding period last year) and total revenues as stated in the quarter of NIS 10.4 million (compared with NIS 5.3 million in the corresponding quarter last year).

The increase as stated in the total revenues is the result of commencement of managing the Sphere Fund, an increase in the scope of the Group's investment banking activities, and particularly consulting with respect to project financing in connection with projects overseas (see Section 4.10, below).

Commencing in the period of the report, the Company implements Accounting Standard No. 12 which deals with discontinuance of the adjustment of financial statements. Therefore, the adjustment was discontinued as at January 1, 2004 (see also Note 1D of the financial statements), a fact that affects the scope of the Company's financing expenses.

The Company ended the period of the report with income of NIS 28.9 million, compared with a loss of NIS 17.0 million in the corresponding period last year. The income for the quarter was NIS 17.4 million, compared with a loss of NIS 7.8 million in the corresponding quarter last year. The increase in income during the period of the report derived mainly from the increase in revenues as described above and from the share of the Company in the results of investees (mainly Leader).

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

	Six Months 2004	Six Months 2003	Quarter 2 2004	Quarter 2 2003
The Company and private companies it controls (*)				
Revenues from consulting, management and participation in profits of funds	19.8	8.2	10.4	5.3
Income from long-term investments, net	0.3	0.8	0.7	0.9
Gain on marketable securities, net	6.0	17.1	1.5	11.9
Total other costs and expenses	(19.9)	(18.6)	(10.7)	(12.2)
Income before financing expenses	6.2	7.5	1.9	5.9
Financing expenses, net	(5.9)	(6.4)	(3.6)	(3.9)
Income (loss) after financing	0.3	1.1	(1.7)	2.0
Taxes on income	-	(1.7)	-	(1.4)
Company's equity in results of investee companies	29.8	(17.0)	19.5	(8.8)
Gain from decrease in percentage held	1.3	-	0.2	-
Minority share in results of subsidiaries, net	(2.5)	0.6	(0.6)	0.4
Income (loss) for the period	28.9	(17.0)	17.4	(7.8)

(*) 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 period of the report are recapped below:

- Increase in the scope of activities which is reflected by an increase in the total revenues, as noted above.
- Decrease in the scope of the Nostro revenues of the Company and private companies it controls. In the period of the report, the Company is presenting gains from marketable securities of only NIS 6.0 million, compared with NIS 17.1 million in the corresponding period last year, this being due a downturn in the capital markets in the second quarter of the year.
- The share of the Company in the income of investee companies during the period of the report and the quarter amounted to NIS 29.8 million and NIS 19.5 million, respectively, deriving mainly from its share in the income of Leader (in the corresponding periods last year – losses of NIS 17.0 million and NIS 7.8 million, respectively).

- The total other costs and expenses amounted to NIS 19.9 million in the period of the report, compared with NIS 18.6 million in the corresponding period last year. The net increase in costs in the period of the report 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. The decline in the expenses in the quarter compared with the corresponding quarter last year stems, mainly, from a decrease in costs for coverage of exposures in respect of legal claims and other risks that were recorded in prior periods.
- The financing expenses of the Company and private companies it controls amounted to NIS 5.9 million in the period of the report (NIS 3.6 million in the quarter), compared with NIS 6.4 million in the corresponding period last year (NIS 3.9 million in the corresponding quarter last year). The decrease in the financing expenses derives from the decline in the scope of the Company's liabilities to banks.

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 non-banking investments in various sectors of the Israeli economy.

Leader's shareholders' equity amounted to NIS 250.6 million as at June 30, 2004, compared with 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 period of the report in an amount of NIS 40.1 million and the conversion of debentures and exercise of options held by the Company. See paragraph 5.2 below.

During the period of the report the financial liabilities (long and short-term) of Leader and private companies it controls to banks, to others and in respect of debentures less its liquid resources, declined by NIS 82 million compared with December 31, 2003, and as at June 30, 2004 they total NIS 128 million.

As at June 30, 2004, the net asset value of the investment in Leader on the Company's books amounted to approximately NIS 182 million. As a result of the sale of shares, conversion of debentures and exercise of options during the period of the report, the Company's effective percentage of holding in Leader's share capital, was roughly 69.1% (69.4% at the publication date of the financial statements.).

4.2 Capital Market Activity

4.2.1 Issuances, distribution of securities and brokerage

Operations in the capital market during the period of the report continued to reflect the recovery which began at the end of 2003. This recovery is visible in the Group's business results, mainly in the scope of revenues from consulting, underwriting, brokerage, and issuance management services. In the period of the report and in the quarter, these revenues totaled NIS 24.5 million and NIS 12.8 million, respectively, compared with NIS 10.1 million and NIS 8.5 million, in the corresponding periods last year. Proximate to the publication date of these financial statements, a moderation was visible in the trends described above, which affects, among other things, the scope of the fundraisings executed in the primary market.

Leader Issuances (1993) Ltd. (hereinafter – “Leader Issuances”), a wholly-owned subsidiary of Leader, is involved in managing public issuances. In the period of the report and up to the publication date of this report, Leader Issuances was involved in 13 issuances, serving as the head manager of the underwriting consortium in 11 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 10 billion, of which NIS 2 billion was during and subsequent to the period of the report.

In the period of the report, the TA 100 index increased by 10.2% in real terms, while the Ma’of index increased in real terms by 9.3%.

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”).

As at June 30, 2004, the Company effectively holds 15.8% 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 9.4 million (the market value of these shares as at that date was NIS 19 million).

DS Securities finished the period of the report with net income of NIS 2.8 million, compared with net income of NIS 5.8 million in the corresponding period last year (net income of NIS 0.5 million in the quarter, compared with net income of NIS 4.7 million in the corresponding quarter last year).

On May 23, 2004, the Board of Directors of DS Securities declared distribution of a dividend in the amount of NIS 2 million which was paid during the second quarter of 2004.

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 is also directly engaged in industrial activities.

During the period of the report and up until the issuance date of this report, Leader and one of its wholly-owned subsidiaries sold shares and options of Urdan, for an amount of NIS 29 million (NIS 17 million in the quarter), at a pre-tax gain of NIS 10 million (about NIS 4 million in the quarter).

Due the aforementioned sales, as at the balance sheet date Leader holds, directly and indirectly, 60.49% of the share capital of Urdan. As at June 30, 2004, the investment in Urdan is recorded on the books of Leader and its wholly-owned subsidiary at the amount of NIS 109 million (including debentures in the amount of NIS 14 million).

Urdan finished the period of the report with net earnings of NIS 2.2 million, compared with a loss of NIS 11.6 million in the same period last year (earnings of NIS 1.1 million in the quarter, compared with a loss of NIS 8.6 million in the same quarter last year).

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, specializing in investments in the area of industry.

Orlite’s net income for the period of the report amounted to NIS 1.5 million, compared with a loss of NIS 7.0 million in the same period last year. Orlite finished the second quarter of 2004 at a breakeven, compared with a loss of NIS 2.1 million in the corresponding quarter last year. The improvement in Orlite’s financial results in the period of the report derives mainly from an increase in sales, from the increase in the gross profit margin due to efficiency measures, and from a decrease in the financing expenses.

Ytong, the shares of which are traded on the Stock Exchange (held 84.5% by Urdan and Orlite), is engaged, both directly and through wholly-owned and partly-owned companies, in the manufacture of a variety of 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.

Ytong operates through, among others, Aloni (a company in which Ytong Industries holds directly and indirectly 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 Company’s 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. Regarding the claim filed in the United States against Univerkol and its subsidiary, see the notes to the financial statements.

Ytong Industries concluded the period of the report with pre-tax earnings of NIS 5.6 million, compared with a pre-tax loss of NIS 12.4 million in the corresponding period last year. Ytong Industries’ pre-tax earnings in the second quarter of 2004 amounted to NIS 3.3 million, compared with a pre-tax loss of NIS 3.7 million in the corresponding quarter last year.

4.3.3 Other Holdings of Urdan

E.E.R. – 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% is held by other funds managed by the Company.

As at the balance sheet date, the cost of the investments of the Company, Technologies, and Urdan in EER (before the share of the companies in the losses of the venture) was NIS 11.5 million, NIS 4.5, and NIS 27.2 million, respectively.

In March 2004, ER signed a work protocol with Sumstar Group Corporation ("Sumstar"), a Chinese Government company, and with ER's Russian partners, the Korchtov Institute and the Radon Institute. Under the work protocol, Sumstar intends to order from ER and its Russian partners planning and construction work in China of facilities 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 which would stipulate the scope of the work and the manner of its execution.

Should the transaction be consummated, ER intends on bringing in international financial and industrial entities having the expertise with respect to construction of such facilities, with ER being entitled to royalties in respect of the know-how and services it will provide to these entities. It should be noted, that ER has no guarantee that a binding agreement between the parties will actually be signed.

On June 27, 2004, ER signed an agreement in principle to cooperate with the Ukrainian Government, the Korchtov Institute and the Radon Institute, for purposes of constructing a number of facilities in Chernobyl for removal of low-radiation radioactive waste (hereinafter – "the Project"). The Project is to be executed based on the BOT method, where ER will be responsible for construction, operation and delivery of the facilities. ER intends to bring in international financing institutions for purposes of financing the Project.

On June 20, 2004, ER signed a memorandum of understanding with the Japanese Investor with respect to an additional investment in ER. Pursuant to the memorandum of understanding, the Japanese Investor will invest an additional \$4 million for about another 5.1% of ER's share capital (based on a value of the company after the investment of \$79 million). Further, the Japanese Investor was given an option to invest another \$1 million up to the end of 2004, based on the same value for the company, for 1.25% of ER's share capital. After execution of the investment, SKF, Urdan and the entities under SKF's management and control will hold roughly 8.5%, 20% and 7.6%, respectively in ER's share capital and SKF and Urdan will realize a deferred gain of \$2 million and \$3 million, respectively, which will be recorded to the statement of income in a manner similar to that described above.

Scoop – Scoop Metal Trade and Technical Services Ltd. ("Scoop"), a public company the shares of which are traded on the Tel-Aviv Stock Exchange, is engaged in the importing and marketing of products and raw materials in the white metals industry, engineering plastic products and steel alloy products. In the second quarter, Urdan sold 11.8% of the shares of Scoop in an off-market transaction, with its share in Scoop decreasing to 4.8%.

4.4 Polar Investments Ltd. (“Polar Investments”)

4.4.1 Areas of Activity of Polar Investments

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

Due to sale of shares of Polar Investments in the period of the report for a consideration of NIS 30 million, as described above, Leader effectively held 47% of the share capital of Polar Investments and 50% of the voting rights therein. At the date of the report, the net asset value of the investment in Polar Investments on the Company's books is NIS 173 million.

Polar Investments' reported income of NIS 26.7 million in the period of the report, compared with a loss of NIS 38.0 million during the corresponding period last year (income of NIS 14.1 million in the quarter, compared with a loss of NIS 22.6 million during the corresponding quarter last year). The increase in income was a result of the factors described above, including the recovery of the capital markets, reduction in the total liabilities, the efficiency measures taken, and the focusing of its business strategy.

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

4.4.2 Communications, Media, Computer Systems and Advanced 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%), Nipson (70%), Mind (15%), Reshet (26%), Cimatron (32.7%) Arel Communications (14%), Maximedia (50%), Smartlink (14.8%), etc.

On May 24, 2004, pursuant to the approval of the General Meeting of the Shareholders of Polar Communications, Polar Communications purchased from Polar Investments all of the shares of Koonras Technologies Ltd. (“Koonras”) (described below), for a consideration of NIS 79 million. In addition, out of the balance of the shareholders' loans of NIS 43.8 million made by Polar Investments to Koonras, the amount of NIS 10 million was repaid immediately after the completion of the transaction and the balance is to 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 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.

In the framework of this transaction, the communications' and technologies' areas of Polar Investments were consolidated into Polar Communications thus creating a varied investments' portfolio focusing in these areas.

Upon completion of the transaction and in exchange for the rights of the joint chairman and C.E.O. of Koonras to 7.5% of the share capital of Koonras (through a company he controls), the aforementioned received from Polar Investments shares of Polar Communications comprising 2.9% of the latter's share capital.

In addition, in July 2004, Polar Investments completed, pursuant to a partial tender offer it published, acquisition of additional shares of Polar Communications comprising 6.2% of the latter's share capital, for a total consideration of NIS 19.2 million. Accordingly, the holdings of Polar Investments in the share capital of Polar Communications increased to 86.7%.

Polar Communications presented net income in the period of the report of NIS 29.1 million, compared with net income of NIS 3.9 million in the corresponding period last year. Polar Communications presented net income in the quarter of NIS 14.8 million, compared with net income of NIS 6.7 million in the corresponding quarter last year.

Most of the income derives from sale of marketable shares, mainly in Mind and Arel Communications, and sale of the holdings of Polar Communications in Pointer, as described below.

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 Ministry of Communications.

Partner announced that it received a notification from the Ministry of Communications pursuant to which the Ministry is considering making regulatory changes, including reduction of certain tariffs that will have a material adverse effect on Partner's revenues and its financial position. Partner announced that it rejects these proposals and vigorously objects to their adoption, however, at the present time, it is unable to predict the outcome of the hearing set with respect to this matter.

The stock market value of the investment of Polar Communications in Partner proximate to the signing date of the financial statements amounted to NIS 125 million and reflects an excess over the book value of the investment Polar Investments' books of NIS 123 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 holdings of Polar Communications in the share capital of Yes is 8.13% (7% taking into account the exercise of option warrants allotted in April 2004 to the shareholders of YES, including Polar Communications).

In the period of the report and the second quarter, YES presented revenues of NIS 485.9 million and NIS 250.1 million, respectively, compared with revenues of NIS 398.3 million and NIS 204.4 million, respectively, in the corresponding periods last year.

Primarily as a result of an increase in revenues, YES' operating losses declined in the period of the report compared with the corresponding period last year.

Accordingly, YES presented a decrease in the loss in the period of the report and the second quarter, which amounted to NIS 205.5 million and NIS 95.1 million, respectively, compared with a loss of NIS 282.9 million and NIS 162.9 million, respectively, in the corresponding periods last year.

As a result of YES' losses, its shareholders' deficit and its working capital deficit as at June 30, 2004 amounted to NIS 3,034 million and NIS 1,799 million (including short-term bank credit in the amount of NIS 1,297 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 themselves have an impact on the financial statements of Polar Communications.

As at June 30, 2004, the balance of the investment of Polar Communications in YES (mainly in shareholders' loans) on its books amounted to NIS 112.3 million.

Regarding the agreements YES reached with the banks and the intention of Bezeq, The Israel Telecommunications Company Ltd. to invest additional amounts in YES, see Note 3C1E to the financial statements.

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, is engaged in development and sale of software products for collections and billing and management solutions for communications networks, which are based mainly on internet protocol (IP).

In the period of the report and up to the signing date of the financial statements, Polar Communications sold part of the shares of Mind on the NASDAQ for a consideration of NIS 14.7 million and it realized a pre-tax capital gain of NIS 10.3 million, NIS 8.6 million of which was included in the financial statements of the period of the report. Due to the said sales, the rate of holdings of Polar Communications in the share capital of Mind declined from 18% to 15%.

Pursuant to the dividend policy adopted by Mind to distribute its annual net income to its shareholders every year, 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 signing date of the financial statements amounted to NIS 55 million and reflects an excess of NIS 33 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 July 2004, after receipt of the decision of the Supervisor of Restrictive Business Practices, the Council of the Second Channel decided that the upcoming tender for television broadcasts on the Second Channel for a period of ten years (from November 1, 2005), which is scheduled to be published in September 2004, will be for provision of two concessions for two broadcast units.

Arel Communications Ltd. (“Arel”)

Arel is engaged in the development and marketing of distance learning systems and is traded on a U.S. stock exchange. Following the sale on the stock market of part of Polar Communications’ shares in Arel in the period of the report, for the amount of NIS 7.6 million and at a profit of NIS 6.5 million (of which NIS 5.5 million was in the second quarter), the percentage of Arel’s share capital held by Polar Communications decreased to 14%.

The market value of Polar Communications’ investment in Arel close to the signing date of the financial statements amounted to NIS 11 million and reflects an excess of NIS 6 million over the book value of the investment on the books of Polar Communications.

Pointer from the Eden Telecom House Ltd. (“Pointer”)

In June 2004, the sale of the full amount of Polar Communications’ holdings in Pointer (20.5%) was completed (including assignment of the shareholders’ loans and a perpetual capital note) to Nexus Telocation Systems Ltd., a company traded on a U.S. stock exchange, for a consideration of 7.5% of the shares of Nexus. As a result of the sale, in the second quarter Polar Communications realized a pre-tax gain in the amount of NIS 8.5 million.

Pointer operates a communications network spread throughout the State, mainly for provision of services in connection with security and automatic location of vehicles.

4.4.2.2 Koonras Technologies Ltd. (“Koonras”)

Koonras is a wholly-owned subsidiary of Polar Investments specializing in investments in advanced technology and biochemical companies. Koonras’ main investments include: Nipson (70%), Cimatron (32.7%), Smartlink (14.8%), and others. See also Note 3A(1) of the financial statements.

As noted above, Polar Communications completed acquisition of the full ownership and control of Koonras from Polar Investments. Accordingly, as at the date of the report, the balance sheet of Koonras has been consolidated with the balance sheet of Polar Communications as at that date.

Koonras showed a loss in the period of the report in the amount of NIS 20.1 million, of which NIS 14.9 million was in the second quarter, compared with losses of NIS 12.7 million and NIS 9.4 million in the corresponding periods last year, respectively. Most of the loss shown by Koonras in the period of the report derived from results of operations of Nipson described below and from financing expenses.

Nipson Digital Printing Systems PLC (“Nipson”)

Nipson is engaged in the manufacture, development, sale and international marketing of digital printers for black and white commercial printings, at high speeds, in short or long series, where part of the printed information does not change. The printing is accomplished by means of special technology involving magnetic embedding, which permits printing on different surfaces.

In July 2004, Nipson completed issuance of its shares on the London Stock Exchange (AIM). In the framework of the aforementioned issuance, Nipson raised \$18.4 million (\$16.4 million net), including \$3.7 million from a subsidiary (indirect) of Koonras, this being based on a value for the company (after the money) of \$57 million.

Upon completion of the above-mentioned issuance, Koonras' rate of holdings (indirect) in Nipson's share capital dropped from 94% to 70%, and in the financial statements for the third quarter of 2004 a gain from issuance to a third party is expected to be included in the amount of NIS 29 million (share of Polar Investments).

In May 2004, Koonras (indirectly) signed an agreement with certain investors for receipt of a loan in an amount of €4 million, which is to be repaid at the earlier of completion of the public issuance of Nipson, or after six months from the date of its receipt. Accordingly, shortly after the issuance of Nipson, as described above, the loan was repaid.

As part of the above-mentioned agreement, Koonras (indirectly) granted the investors options in a quantity equal to half of their investment, as stated, for exercise during a three-year period, at an exercise price equal to 80% of the price of the public issuance of Nipson.

The stock market value of Koonras' holdings (70% indirectly) in Nipson proximate to the signing date of the financial statements, was NIS 202 million and reflects an excess of NIS 118 million over the amount at which the investment is presented in the books (Koonras' portion).

Nipson's loss in the period of the report amounted to NIS 9.2 million, of which NIS 6.7 million, in the second quarter, compared with net income of NIS 1.0 million in the corresponding period last year, most of which in the second quarter. The loss in the period of the report derives, mostly, from additional expenses in connection with the plan for a structural change and greater efficiency, which was adopted by Nipson last year, together with non-recurring marketing expenses.

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. See also Note 3C(2) to the financial statements.

Polar Real Estate and the banks have reached agreements in principle regarding a rescheduling of the repayment dates of a large part of the bank loans it received, regarding credit that was not granted as part of project accompaniment, and, at the same time, which is principally financed by shareholders' loans from Polar Investments. During the period of the report, Polar Investments granted additional shareholders' loans to Polar Real Estate in an amount of NIS 11.5 million. As at the balance sheet date, the balance of the shareholders' loans made by Polar Investments to Polar Real Estate amounted to NIS 161 million.

In August 2004, Polar Investments acquired from the Etgar Fund 8.68% of the shares of Polar Real Estate, for a consideration of \$3.2 million. Accordingly, the rate of Polar Investments' in the share capital of Polar Real Estate increased from 71.3% to 80.01%.

Further to the expiration of agreements (in April 2004), signed in December of last year between Polar Investments, and Polar Real Estate and its subsidiaries, on the one hand, and Group companies of the Shikun U'vinui Group, on the other, on May 24, 2004 a memorandum of agreement and understandings was signed between the parties, determining a framework for new agreements most of which were signed thereafter and which regulate the matters (as described in the notes to the financial statements):

As part of the aforementioned transactions, Polar Real Estate will be released from guarantees it provided in connection with those projects that are the subject of the transaction described above, in an amount of NIS 41 million.

These agreements and transactions are interdependent. In addition, the above transactions are contingent on a number of pre-conditions (see also Note 3C(2) to the financial statements). If the above-mentioned transactions are consummated, a significant decrease is expected in the balance of Polar Real Estate's liabilities with no material impact on the statement of income.

Regarding the exposure of Polar Real Estate due to the decision of the Supreme Court sitting as the 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, see Note 3C(2) to the financial statements.

In the period of the report and in the second quarter, Polar Real Estate's revenues totaled NIS 123.6 million and NIS 56.8 million, respectively, compared with revenues of NIS 71.5 million and NIS 30.4 million in the corresponding periods last year, respectively. The increase in Polar Real Estate's revenues stems, mainly, from the first time recording of revenues in the second quarter from the residential project Life Park, in Herzlyia Pituah, and from completion of the sale of real estate in Tel-Aviv in the first quarter.

Polar Real Estate showed a significant decrease in the loss, which totaled in the period of the report and in the second quarter, NIS 10.6 million and NIS 4.9 million, respectively, compared a loss of NIS 20.6 million and NIS 12.9 million in the corresponding periods last year, respectively. Most of the decline in Polar Real Estate's losses derive from an increase in gross profit, mainly, from the Life Park, project in Herzlyia Pituah and the Holy Land project in Jerusalem, this being together with a decline in Polar Real Estate's operating and financing expenses.

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 period of the report, Ophir showed net income of NIS 4.4 million, and a loss in the second quarter of NIS 0.7 million, compared with a loss of NIS 1.5 million and NIS 4.2 million in the corresponding periods last year, respectively. Most of the income reported during the period of the report derived from the receipt of a dividend in the first quarter from Mivnei Ta'asiya in an amount of NIS 4.1 million.

During the period of the report, 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 a capital gain in its financial statements in the period of the report in the amount of NIS 0.3 million.

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 134 million, compared with NIS 152 million, the amount of at which the investment is included in Ophir's books.

In Ophir's estimation, as at the signing date of the financial statements, the difference between the stock market value of the investment in Mivnei Ta'asiya and the amount at which this investment is recorded on its books does not constitute a permanent difference.

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 seeds, and fresh vegetables, as well as handling the real estate assets it owns, including among others, the Shalem Ranch near the Mesubim intersection (Tel-Aviv) and the Mivchor Ranch near the Plugot intersection (Kiryat Gat).

During the period of the report, Hazera had sales of NIS 13.7 million and net income of NIS 0.6 million, compared with sales of NIS 11.1 million and net income of NIS 0.4 million in the corresponding period last year, respectively.

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 main 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 signed an agreement for the sale, in equal shares, of 20% of City Pass, for an amount roughly equal to the cost of their investments in City Pass to date. Upon completion of the agreement, the rate of Polar Investments' holdings 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 through a subsidiary in the area of development, manufacture, and marketing of communications transmission products and cellular telephones (hereinafter – “Day Italy”).

Polar Trade's revenues in the period of the report and in the second quarter, amounted to NIS 176.8 million and NIS 84.1 million, respectively, compared with revenues of NIS 53.7 million and NIS 20.5 million in the corresponding periods last year, respectively. The increase in revenues derived mainly from the increase in the frequency of orders from a major customer of Day in Israel, and from consolidation of the revenues of Day Italy commencing with the period of the report.

In May 2004, Polar Investments sold 7.66% of its holdings in Polar Trade for the amount of €4.6 million, to a third party (“the Investor”) who is also a shareholder (20%) in Day. In the framework of the sale agreement, the investor was granted a “put” option to sell to the company, up to March 31, 2005, its holdings in Polar Trade and in Day for the 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.

Accordingly, subsequent to the balance sheet date, Polar Investments invested (indirectly) the amount of €3.6 million for purposes of financing the activities of Day Italy. Concurrently, a subsidiary of Day purchased from an indirectly related party of the Investor, for an immaterial amount, a liability of Day Italy, the value of which in Day’s consolidated financial statements (“Day’s financial statements”), amounted to €13 million.

As a result of the above, the entire amount of the aforementioned liability was written off in Day’s financial statements, and concurrently, the entire unallocated excess cost generated on the initial consolidation of Day Italy in Day’s 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. The remaining balance, in the amount of NIS 14 million, was presented as negative excess cost and will be recorded on the statement of income over a period of five years. The amount deducted from the balance of the non-monetary assets, as stated above, will be expensed concurrently with consumption or depreciation of these assets. The consequences of that described above on the business results in the financial statements for the period of the report amounted to a decrease in expenses (net) of NIS 9.6 million (share of Polar Investments), of which NIS 4.9 million in the second quarter (share of Polar Investments).

The profit realized by Polar Investments, in an amount of NIS 23.7 million, as a result of the sale of Polar Trade shares, as above, (taking into consideration the aforementioned option), is presented as deferred income in Polar Investments’ financial statements and will be recognized over a three-year period or up to the share of Polar Investments in the losses of the Day Italy (should such losses be incurred), whichever amount is higher based on a cumulative calculation. As a result, in the second quarter, the amount of NIS 0.9 million was recognized out of the aforementioned income.

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 26.9%.

Transclal reported revenues in the period of the report and in the second quarter (including financing) of NIS 38.6 million and NIS 18.4 million, about the same as in the corresponding periods last year. Transclal reported net income in the period of the report and in the second quarter of NIS 7.2 million and NIS 3.7 million, about the same as in the corresponding periods last year.

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

In the second quarter, Polar Investments sold part of its shares of Transclal, for a consideration of NIS 4.2 million and it realized a pre-tax gain of NIS 1.3 million.

In July 2004, Transclal completed a special tender offer that it published for acquisition from the public of half of its shares, as well as acquisition of half of Polar Investments’ shares in Transclal. Accordingly, Transclal acquired part of its shares, as stated, for the amount of NIS 29.5 million, of which NIS 22.2 million was from Polar Investments.

As a result of that stated above, the rate of Polar Investments’ holdings in the share capital of Transclal declined from 39.7% to 26.9%, and it is expected that in the third quarter it will include a pre-tax capital gain in its financial statements in the amount of NIS 4.8 million.

In addition, Polar Investments and the CEO of Transclal (who holds 58.4% of Transclal’s share capital) reached an agreement in principle pursuant to which Polar Investments granted the CEO of Transclal an option to acquire from it most of the balance of its holdings in the shares of Transclal after sale of the shares of Transclal as stated above, this being at the same price as in the tender offer and as described in Note 4E to the financial statements.

If this option is exercised by the CEO of Transclal, Polar Investments is expected to receive the amount of NIS 19.6 million and to include a pre-tax capital gain in its financial statements in the amount of NIS 8.8 million.

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 23 million, reflecting an excess of NIS 8 million over the value of the investment on the books of Polar Investments.

4.4.4.3 Hatzerot Hadar Ltd. (“Hatzerot Hadar”)

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 Hatzerot Hadar, a company engaged in the area of housing for the elderly, for the amount of NIS 21.4 million, including the endorsement to the purchaser of a debt Polar Investments has toward Hatzerot Hadar.

As a result of completion of the above sale, a pre-tax capital gain of NIS 3.2 million was included in the Company’s consolidated financial statements (based on a pass along) for the period of the report.

4.4.4.4 Grand Auto d.o.o. (“Grand Auto”)

In February 2004, Polar Investments acquired (directly and indirectly) through a partnership it established with a third party in equal shares, 80% of the share capital of Grand Auto for a consideration of €3.8 million.

Grand Auto is the exclusive importer of Ford and Jaguar vehicles in Croatia.

The share of Polar Investments (50%) in Grand Auto’s revenues included in its financial statements for the period of the report and the second quarter amounted to NIS 32.6 million and NIS 21.7 million, respectively.

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, and other industries. Polar Investments holds 10.7% of the shares of Dor.

Commencing with Dor’s financial statements for 2003, long-term loans from banks, in the amount of NIS 1,247 thousand (up to March 31, 2004) were classified as short-term liabilities, due to the failure of one of Dor’s subsidiaries (hereinafter – “the Subsidiary”, which handles the BOPP activities) to comply with one of the financial covenants stipulated with respect to those loans. In their auditors’ report on the financial statements for 2003 and in their review report on the financial statements for the first quarter of 2004, Dor’s auditors called 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”. The banks have not made a demand for immediate repayment of the loans.

In July 2004, a conditional agreement was signed between the banks and the Subsidiary wherein it was agreed, among other things, that the banks will waive the breach of the financing agreements, including the non-compliance with the financial covenants as stated, and new financial ratios were fixed which will be based on the updated business plan that was approved by the banks' external consultants. In addition, the parties agreed that Dor will provide shareholders' loans to the Subsidiary in the amount of €10 million which will be repayable after repayment of the loans from the banks.

Dor reported that receipt of the waiver and determination of the new financial ratios as stated above, with respect to which the Subsidiary is able to comply, will lead to a reclassification of the said loans to long-term and removal of the "going concern" remark in the auditors' reports on the financial statements.

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 18 million, compared with the value on the books of Polar Investments which amounted to NIS 38 million. Company Management believes that, as at the signing date 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 engaged 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.

During the period of the report, Kamor's turnover amounted to NIS 264 million, compared with NIS 147 million during the corresponding period last year.

Kamor finished the period of the report with net income of NIS 6.9 million (NIS 2.7 million in the quarter), compared with net income of NIS 2.1 million in the corresponding period last year (NIS 1.0 million in the corresponding quarter last year).

As at balance sheet date, Leader held 21.0% of Kamor's share capital. The investment in Kamor is recorded on the equity basis in Leader's books and, as at June 30, 2004, it amounts to NIS 26.2 million.

In the period of the report, Kamor raised NIS 47 million through an issuance of debentures. Leader Issuances served as the manager of the consortium of underwriters 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 June 30, 2004, BSR has invested or committed to invest in real estate projects the amount of NIS 522 million.

BSR finished the period of the report with income of NIS 34.3 million (income of NIS 34.2 million in the quarter), compared with income of NIS 1.5 million in the corresponding period last year (income of NIS 5.1 million in the corresponding quarter last year).

During the reporting period, Leader invested NIS 4.9 million in shares and options of BSR, and its holdings' percentage in BSR increased to 33%.

As at June 30, 2004, the investment in BSR on Leader's books amounted to NIS 76.2 million, including an investment of NIS 31.2 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.

During the reporting period, BSR sold real estate properties in Slovakia. The pre-tax income recorded by BSR in the second quarter from the aforesaid sale, amounted to NIS 62 million (Leader's share NIS 20 million). See also Note 3B(2) to the financial statements.

Subsequent to the balance sheet date, BSR announced that its subsidiary which is registered in The Netherlands (in which BSR holds an 82.3% interest), signed an agreement in principle with an international investment fund specializing in real estate, pursuant to which 65% of its rights (and rights of third parties) in an investee company registered in Poland that is engaged in initiation and construction of a real estate project in Karkov, will be sold to the Fund. The consideration to be paid by the Fund to the sellers in respect of the rights being sold will be calculated based on a value for the Polish company of €21.5 million. Accordingly, the proceeds expected to be received by BSR will amount to €6.5 million. BSR is expected to record a gross gain of €2.4 million. The validity of the agreement is subject to various approvals.

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 period of the report and the quarter with income of NIS 8.2 million and NIS 4.8 million, respectively, compared with a loss of NIS 3.5 million and NIS 1.4 million, respectively, in the corresponding periods last year.

As at the balance sheet date, Leader effectively holds 21% of the share capital of AMS. As at June 30, 2004, the investment in AMS on the Company's books amounted to NIS 7.2 million.

Subsequent to the balance sheet date, Leader entered into an agreement with AMS for sale of all of its holdings (through a wholly-owned subsidiary) in AMS.

In exchange for the shares sold, AMS is to pay to the subsidiary the amount of NIS 7.5 million plus linkage differences from the signing date of the agreement up to the execution date thereof.

Completion of the agreement is subject to fulfillment of a number of preconditions, according to which AMS must comply with an income test and a repayment capacity test (hereinafter – “the Preconditions”).

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 period of the report. This followed years of a continued slowdown in the capital markets in general and the venture capital industry in particular.

Technologies ended the period of the report with net income of NIS 2.0 million, compared with a loss of NIS 3.7 million in the corresponding period last year. The income derived mainly 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 and in Crow as described below.

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 June 30, 2004, the shareholders' equity of Technologies amounted to NIS 80.5 million, compared with NIS 78.5 million as at December 31, 2003, and constituted 56% of the total balance sheet. The increase in the shareholders' equity in the period of the report derives from the net income of the period.

The net asset value of the investment in Technologies on the books of the Company, as at June 30, 2004, amounted to NIS 46.9 million. The Company holds a 60.6% interest in Technologies.

Technologies' policy is to maintain an operational breakeven so that its current revenues, which amounted to NIS 8.9 million in the period of the report, 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 7.9 million.

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

- During the period of the report, 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 “success fees”.
- During the period of the report, 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). Subsequent to the balance sheet date, in accordance with another request by the Platinum Fund for money, Technologies’ invested U.S.\$1.1 million, constituting 8% of Technologies’ total commitment to the Platinum Fund.
- For purposes of preparation 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. Technologies holds 23% of the issued and paid-up capital of ADT.

During the period of the report, the board of directors of Technologies approved the sale of 20% of its investment in ADT (comprising 5.8% of the issued and paid-up share 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.

– **Crow Technologies (1977) Ltd. (“Crow”)**

Subsequent to the balance sheet date, the Company and Technologies sold to a third party, shares of Crow Technologies (1977) Ltd. (“Crow”) constituting 4.2% of Crow's issued and paid-up share capital, for a consideration of \$791 thousand. Pursuant to the evaluation of the managements of the Company and of Technologies, based on, among other things, the transaction price described above, in the period of the report the Company and Technologies recorded gains in the amount of NIS 0.7 million and NIS 1.4 million, respectively, from elimination of part of the provisions for decline in value of their investments in Crow, that were set up on the books of the Company and Technologies during 2001 and 2002.

- **A.A.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 period of the report and the quarter with a loss of NIS 1.5 million and NIS 1.2 million, respectively, compared with a loss of NIS 0.6 million and NIS 0.4 million, respectively, in the corresponding periods last year.

As at the 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 June 30, 2004, amounted to NIS 22.2 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.

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

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 500 million.

Regarding an offer submitted to BSR by Kanaf 2000 – see Note 3B(2) to the financial statements.

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.

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 period of the report, Financing and Projects served as a consultant for fundraising for other companies, including the Angel Group.

5. Major Events During and Subsequent to the Reporting period

5.1 During the period of the report, NIS 3,500 thousand par value debentures (Series B) of the Company were converted into 437,500 shares of NIS 1 par value each of the Company.

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.

Subsequent to the balance sheet date, the Company converted an additional 4,650 thousand par value debentures (that it acquired from a third party) into 581,250 shares of Leader, and the rate of its holdings in Leader increased to 69.4%. In addition, subsequent to the balance sheet date, an additional 450,000 par value debentures were converted by an outside investor into 56,250 shares of Leader.

5.3 In June 2004, Leader and an overseas investor with which it signed a memorandum of understanding in December 2003 providing that the investor will make a loan to Leader that is convertible into shares of Polar Investments, decided not to proceed with completion of the transaction that is the subject of the memorandum of understanding.

At the same time, Polar Investments and the above-mentioned investor also decided not to proceed with completion of the transaction between them which is the subject of the memorandum of understanding they signed in December 2003 in connection with the investor’s investment in Polar Investments.

5.4 In February 2004, following receipt of court approval for execution of a distribution that does not pass the “income test”, Ytong Industries distributed the amount of NIS 80 million as a dividend to its shareholders. The shares of Urdan and Orlite in the distribution were 15.4% and 69.8%, respectively.

In May 2004, following receipt of court approval for execution of a distribution that does not pass the “income test”, Ytong Industries will distribute a dividend in an amount of NIS 55 million. The shares of Urdan and Orlite in the distribution will be 15.2% and 68.7%, respectively.

5.5 As part of its strategic plan, Polar Investments continued reorganization of the structure of its financial liabilities and the terms thereof, including reduction of the overall balance of its financial liabilities, net, which decreased in the preceding year (up to the date of the report) by NIS 216 million and which, as at the balance sheet date, total NIS 570 million (Polar alone).

Polar Investments completed receipt of additional long-term credit lines from banks in a total amount of NIS 136 million (mostly unutilized) and is taking steps to set down in writing all of the in-principle agreements with another bank for the receipt of an additional credit line in an amount of NIS 46 million.

5.6 In July 2004, the debentures of Polar Investments were upgrading by two grades to a grade of BBB+ (from BBB-) by Ma'alot, The Israeli Securities Rating Company Ltd.

5.7 On August 18, 2004, the Audit Committee and Board of Directors of Technologies approved a plan for issuance of 1,600,000 non-marketable options exercisable into ordinary shares of NIS 0.01 par value of Technologies. The offerees under the aforementioned plan are the CEO of Technologies (897,133 options) and company employees (702,867 options).

5.8 On August 18, 2004, the Audit Committee and Board of Directors of Technologies approved an update of the employment conditions of the CEO of Technologies, such that the bonus to which he is entitled will be calculated based on the annual income (including results of affiliated companies) before taxes and before the bonus and without taking into account losses of prior years if any.

6. Contributions

The Company and Leader 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 period of the report, the amounts of the contributions made by the Company and the consolidated group (including the contributions of subsidiaries of the Company) were NIS 65 thousand and NIS 366 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 material changes in the exposure of the Company to market risks and the management thereof from the description presented in the Company's latest annual financial statements and the attached 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: \$9,000 thousand at exercise prices ranging between 4.63 and 4.7, with a fair value of NIS 81 thousand, and "put" options in the total amount of \$9,000 thousand at exercise prices ranging between 4.40 and 4.45, the fair value of which is a liability of NIS 183 thousand. Call options in the total amount of \$3,000 thousand at an exercise price of 4.95, the fair value of which is zero. The maximum sale was \$9,000 thousand "put" options and \$3,000 thousand "call" options. These transactions are for the period until December 31, 2004. The maximum holding of the subsidiary of Urdan in derivatives in the period of the report was \$ 9,000 thousand "call" options for June 30, 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 June 30, 2004, as follows: \$1,900 thousand, and an additional €1,650 thousand.

The abovementioned transactions are for a period of up to a year and are designated for hedging purposes. Their fair value is NIS 187 thousand. The maximum holding of the subsidiary of Urdan in derivatives during the period of the report was an amount of NIS 19,352 thousand, at June 10, 2004 until June 15, 2004. The transactions are intended for hedging purposes against the exposure in the area of foreign currency supplier credit.

As at the balance sheet date, the Company, Leader and Polar Investments had no material holdings in derivate financial instruments.

In addition to the above, the Company and Leader, through a joint venture held in equal shares, 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 period of the report 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 June 30, 2004					
Assets:					
Current assets	513.5	74.3	514.6	397.9	1,500.3
Real estate	-	-	-	541.2	541.2
Long-term investments and loans	93.8	219.5	58.2	1,527.3	1,898.8
Total	607.3	293.8	572.8	2,466.4	3,940.3
Liabilities:					
Current liabilities	332.9	325.1	890.7	20.7	1,569.4
Long-term liabilities	154.0	914.2	547.4	82.5	1,698.1
Minority interest and options in subsidiaries	-	-	-	472.1	472.1
Total	486.9	1,239.3	1,438.1	575.3	3,739.6
Total balance, net	120.4	(945.5)	(865.4)	1,891.2	200.7

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.

Izhak Shrem
Chairman of the
Board of Directors

Robin Zimmerman
Member of the
Board of Directors

August 22, 2004

Consolidated Balance Sheets

	June 30 2004	June 30 *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
Current assets			
Cash and cash equivalents	263,510	246,685	289,518
Deposits and short-term investments	22,787	58,449	17,095
Marketable securities	233,254	239,225	243,706
Current maturities and loans receivable	12,725	46,589	*26,923
Trade receivables	455,857	372,311	*389,931
Other receivables	138,196	101,381	*211,327
Inventory and work-in-process	374,015	293,118	*322,163
	1,500,344	1,357,758	1,500,663
Real estate	541,219	615,396	530,441
Investments and long-term loans			
Investments in investee and other companies	938,966	1,135,257	926,083
Loans and deposits	62,333	46,619	54,388
	1,001,299	1,181,876	980,471
Fixed assets	779,202	781,531	*787,957
Other assets and deferred expenses	118,255	109,036	164,819
Assets attributed to discontinued operations	-	559,339	15,641
	3,940,319	4,604,936	3,979,992
Current liabilities			
Credit from banks and others	919,958	901,557	937,519
Suppliers and service providers	296,005	177,255	*240,855
Accounts payable and credit balances	291,148	236,860	*337,898
Customer deposits	62,256	107,533	55,293
	1,569,367	1,423,205	1,571,565
Long-term liabilities			
Credit from banks and others	1,277,287	1,401,626	1,313,995
Debentures	154,894	236,403	196,542
Debentures convertible into shares	237,111	305,812	279,230
Employee retirement benefit, net	17,957	10,201	18,697
Deferred taxes	10,786	9,150	13,052
	1,698,035	1,963,192	1,821,516
Liabilities attributed to discontinued operations	-	556,960	15,316
Minority interest	458,668	451,443	392,024
Receipts from share options issued by subsidiaries	13,513	31,855	12,793
Shareholders' equity	200,736	178,281	166,778
	3,940,319	4,604,936	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: August 22, 2004

Consolidated Statements of Operations

	For the six months ended		For the three months ended		For the
	June 30	* June 30	June 30	* June 30	year ended
	2004	2003	2004	2003	December 31
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2003	
	Reported	Amounts	Reported	Amounts	(Audited)
	Amounts**	adjusted to the	Amounts**	adjusted to the	
		effect of inflation		effect of inflation	
		in terms of NIS of		in terms of NIS of	
		December 2003		December 2003	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income					
Income from sales, services, consulting, management and underwriting	912,339	688,524	456,493	350,883	1,376,339
Gain on marketable securities, net	17,892	33,356	812	21,006	110,536
Gain on sales of investments, loans and assets, net	89,764	-	61,521	-	* -
Company's equity in earnings of investment, net	29,342	11,713	17,593	10,984	10,857
	<u>1,049,337</u>	<u>733,593</u>	<u>536,419</u>	<u>382,873</u>	<u>1,497,732</u>
Costs and expenses					
Cost of sales and services	685,754	497,602	340,505	246,225	999,130
Selling and marketing	90,669	78,635	48,077	38,825	161,490
General and administrative	122,797	117,232	57,791	63,922	233,956
Loss on sales of investments, loans and assets, net	-	3,664	-	4,999	* 1,402
Financing expenses, net	76,905	79,013	48,089	51,993	177,620
	<u>976,125</u>	<u>776,146</u>	<u>494,462</u>	<u>405,964</u>	<u>1,573,598</u>
Earnings (loss) before taxes on income	73,212	(42,553)	41,957	(23,091)	(75,866)
Taxes on income	(14,838)	(6,269)	(7,998)	(690)	(16,287)
Earnings (loss) from operations after taxes on income	58,734	(48,822)	33,959	(23,781)	(92,153)
Minority interest in losses earnings of subsidiaries, net	(29,519)	40,972	(16,605)	21,314	68,985
Gain (loss) attributed to continued operations	28,855	(7,850)	17,354	(2,467)	(23,168)
Loss attributed to discontinued operations	-	(9,153)	-	(5,336)	(9,729)
Net earnings (loss) for the period	<u>28,855</u>	<u>(17,003)</u>	<u>17,354</u>	<u>(7,803)</u>	<u>(32,897)</u>
Earnings (loss) per NIS 1 par value of the ordinary share capital:					
Basic earnings (loss) per share from continued operations	1.58	(0.51)	0.95	(0.16)	(1.40)
Basic loss per share from discontinued operations	-	(0.60)	-	(0.33)	(0.58)
Basic earnings (loss) per share	<u>1.58</u>	<u>(1.11)</u>	<u>0.95</u>	<u>(0.49)</u>	<u>(1.98)</u>
Diluted earnings (loss) per share from continued operation	1.46	(0.51)	0.87	(0.16)	(1.40)
Diluted loss per share from discontinued operation	-	(0.60)	-	(0.33)	(0.58)
Diluted earnings (loss) per share	<u>1.46</u>	<u>(1.11)</u>	<u>0.87</u>	<u>(0.49)</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

	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 (losses)	Total
Reported Amounts*							
NIS thousands							
Six month period ended June 30, 2004 (Unaudited)							
Balance as at January 1, 2004 (Audited)	24,923	162,223	4,981	(3,194)	(4,691)	(17,464)	166,778
Sale of Company shares	-	(379)	-	-	2,240	-	1,861
Conversion of debentures into shares of the Company (1)	437	2,876	-	-	-	-	3,313
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	(71)	-	-	-	(71)
Net earnings for the period	-	-	-	-	-	28,855	28,855
Balance as at June 30, 2004	25,360	164,720	4,910	(3,194)	(2,451)	11,391	200,736

(1) In the current period NIS 3,500 thousand par value of debentures were converted into 437 thousand ordinary shares of the Company. As at balance sheet date the balance of the debentures is a par value of NIS 13,500 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)

	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 (losses)	Total
Amounts adjusted to the effect of inflation in terms of NIS of December 2003							
NIS thousands							
Six month period ended June 30, 2003 (Unaudited)							
Balance as at January 1, 2003 (Audited)	21,917	137,332	3,354	(3,194)	(4,585)	15,433	170,257
Purchase of Company shares	-	-	-	-	(106)	-	(106)
Issuance of shares	3,008	26,158	-	-	-	-	29,166
Changes in capital reserves in respect of investee companies	-	(30)	-	-	-	-	(30)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	(4,003)	-	-	-	(4,003)
Loss for the period	-	-	-	-	-	(17,003)	(17,003)
Balance as at June 30, 2003	<u>25,925</u>	<u>163,460</u>	<u>(649)</u>	<u>(3,194)</u>	<u>(4,691)</u>	<u>(1,570)</u>	<u>178,281</u>

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

	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 (losses)	Total
	Reported Amounts*						
	NIS thousands						
Three month period ended June 30, 2004 (Unaudited)							
Balance as at April 1, 2004 (Unaudited)	25,298	164,681	5,621	(3,194)	(4,691)	(5,963)	181,752
Sale of Company shares	-	(379)	-	-	2,240	-	1,861
Conversion of debentures into shares of the Company	62	418	-	-	-	-	480
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	(711)	-	-	-	(711)
Net earnings for the period	-	-	-	-	-	17,354	17,354
Balance as at June 30, 2004	25,360	164,270	4,910	(3,194)	(2,451)	11,391	200,736

* 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)

	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 (losses)	Total
Amounts adjusted to the effect of inflation in terms of NIS of December 2003							
NIS thousands							
Three month period ended June 30, 2003 (Unaudited)							
Balance as at April 1, 2003 (Unaudited)	21,917	137,332	3,241	(3,194)	(4,691)	6,233	160,838
Issuance of shares	3,008	26,158	-	-	-	-	29,166
Changes in capital reserves in respect of investee companies	-	(30)	-	-	-	-	(30)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	(3,890)	-	-	-	(3,890)
Loss for the period	-	-	-	-	-	(7,803)	(7,803)
Balance as at June 30, 2003	<u>24,925</u>	<u>163,460</u>	<u>(649)</u>	<u>(3,194)</u>	<u>(4,691)</u>	<u>(1,570)</u>	<u>178,281</u>

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

	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 earnings (losses)	Total
Amounts adjusted to the effect of inflation in terms of NIS of December 2003							
NIS thousands							
Year ended December 31, 2003 (Audited)							
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	<u>24,923</u>	<u>162,223</u>	<u>4,981</u>	<u>(3,194)</u>	<u>(4,691)</u>	<u>(17,464)</u>	<u>166,778</u>

Consolidated Statements of Cash Flows

	For the six months ended		For the three months ended		For the
	June 30	* June 30	June 30	* June 30	year ended
	2004	2003	2004	2003	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	Reported	Amounts	Reported	Amounts	Amounts
	Amounts**	adjusted to the	Amounts**	adjusted to the	adjusted to the
		effect of inflation		effect of inflation	effect of inflation
		in terms of NIS of		in terms of NIS of	in terms of NIS of
		December 2003		December 2003	December 2003
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:					
Net earnings (loss)	28,855	(17,003)	17,354	(7,803)	(32,897)
Adjustments required to reconcile cash from operating activities (Annex A)	(142,303)	(29,104)	(37,292)	(8,731)	(54,880)
Net cash inflow (outflow) attributed to continued operations	(113,448)	(46,107)	(19,938)	(16,534)	(87,777)
Net cash outflow attributed to discontinued operations	-	13,887	-	12,819	14,983
Net cash outflow from operating activities	(113,448)	(32,220)	(19,938)	(3,715)	(72,794)
Cash flows from investing activities:					
Purchase of fixed assets, real estate and amounts charged to projects under construction and other assets	(54,729)	(91,192)	(23,472)	(15,677)	(108,278)
Proceeds from sale of fixed assets and other assets	103,629	10,912	31,893	4,903	24,735
Proceeds from sale of marketable securities, short-term investments and deposits, net	6,283	(21,875)	6,127	(52,847)	90,655
Investments in investee and other companies (including through loans and capital notes), net	(54,675)	(88,342)	(16,418)	(72,254)	(145,104)
Decrease in deposits and loans granted, net	(23,835)	8,631	(33,112)	72,506	22,058
Proceeds from sale of investment in investee and other companies	235,187	62,086	149,986	60,027	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	-	311	-	165	795
Net cash inflow (outflow) attributed to continued investments activities	198,101	(119,469)	115,004	(3,177)	166,549
Net cash inflow attributed to discontinued investment activities	-	78,832	-	(4,148)	108,371
Net cash inflow from investment activities	198,101	(40,637)	115,004	(7,325)	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)

	For the six months ended		For the three months ended		For the
	June 30	* June 30	June 30	* June 30	year ended
	2004	2003	2004	2003	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	Reported	Amounts	Reported	Amounts	Amounts
	Amounts**	adjusted to the	Amounts**	adjusted to the	adjusted to the
		effect of inflation		effect of inflation	effect of inflation
		in terms of NIS of		in terms of NIS of	in terms of NIS of
		December 2003		December 2003	December 2003
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities:					
Purchase of Treasury shares	-	(106)	-	-	(106)
Sale of Treasury shares	1,861	-	1,861	-	-
Liability for financial lease	-	53,154	-	-	54,739
Issuance of debentures and convertible debentures in consolidated companies, net	-	35,847	-	-	35,884
Issue of convertible bonds in Company's shares, net	-	16,552	-	-	16,552
Repayment of convertible debentures	-	(4,912)	-	-	(4,912)
Dividend to minority	(21,649)	(265)	(9,896)	(76)	(1,341)
Receipt (repayment) of loans and capital notes, net	(110,269)	44,394	(117,856)	84,723	(64,171)
Issuance of marketable securities of subsidiaries	442	150	379	150	(1,262)
Purchase of shares from the minority shareholders by subsidiary	(451)	-	(215)	-	-
Repayment of short-term credit, net	32,032	13,769	47,261	28,855	(10,007)
Repayment of debentures and convertible debentures by subsidiaries	(12,382)	(27,784)	(1,448)	(12,424)	(96,228)
Net cash inflow (outflow) attributed to continued financing activities	(110,416)	130,799	(79,914)	101,218	(70,852)
Net cash outflow attributed to discontinued financing activities	-	(86,803)	-	16,683	(117,385)
Net cash outflow from financing activities	(110,416)	43,996	(79,914)	117,901	(188,237)
Translation differences with respect to cash balances with respect to cash balances in autonomous investee companies	(245)	(1,135)	(329)	(1,039)	(999)
Increase (decrease) in cash and cash equivalents	(26,008)	(35,912)	14,823	80,468	6,921
Balance of cash and cash equivalents at beginning of period	289,518	282,597	248,687	166,217	282,597
Balance of cash and cash equivalents at end of period	263,510	246,685	263,510	246,685	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)**Annex A -****Adjustments required to reconcile cash from operating activities**

	For the six months ended		For the three months ended		For the
	June 30 2004 (Unaudited)	* June 30 2003 (Unaudited)	June 30 2004 (Unaudited)	* June 30 2003 (Unaudited)	December 31 2003 (Audited)
	Reported Amounts** NIS thousands	Amounts adjusted to the effect of inflation in terms of NIS of December 2003 NIS thousands	Reported Amounts** NIS thousands	Amounts adjusted to the effect of inflation in terms of NIS of December 2003 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	-	9,153	-	5,336	9,729
Depreciation and amortization	29,358	36,810	14,063	18,208	68,922
Company's equity in losses (earnings) of investee companies less of dividend received, net	(23,955)	(719)	(16,586)	(5,787)	6,815
Minority interest in results of subsidiaries, net	29,519	(40,972)	16,605	(21,314)	(68,985)
Loss (gain) on marketable securities and deposits, net	(5,891)	(44,095)	9,242	(32,661)	(91,597)
Expenses (income) from financing activities	11,381	(1,670)	9,072	2,888	8,959
Deferred taxes, net	4,549	(612)	2,914	(154)	*(10,170)
Increase (decrease) in liability for employee severance benefits, net	(791)	(1,012)	(314)	111	(3,259)
Loss (gain) on sale and amortization of investments and assets, net	(89,277)	7,111	(61,494)	6,064	(17,022)
Other expenses	4,530	-	4,183	-	17,839
Changes in asset and liability items					
Decrease (increase) in trade receivables and other receivables	(47,434)	(13,773)	16,305	(23,909)	*(912)
Decrease (increase) in inventory and in land business inventory holdings, net	(63,319)	15,974	(38,271)	23,270	-
Increase (decrease) in suppliers and service providers	9,047	4,701	6,989	19,217	24,801
	(142,303)	(29,104)	(37,292)	(8,731)	(54,880)

* 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)**Annex B - Non-cash transactions**

	For the six months ended		For the three months ended		For the year ended
	June 30 2004 (Unaudited)	June 30 2003 (Unaudited)	June 30 2004 (Unaudited)	June 30 2003 (Unaudited)	December 31 2003 (Audited)
	Reported Amounts*	Amounts adjusted to the effect of inflation in terms of NIS of December 2003	Reported Amounts*	Amounts adjusted to the effect of inflation in terms of NIS of December 2003	Amounts adjusted to the effect of inflation in terms of NIS of December 2003
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Conversion of convertible bonds into Company shares	3,313	-	480	-	-
Purchase of Treasury stocks and option warrants in exchange of redemption of loans to employees in a subsidiary	-	-	-	-	25,552
Amounts receivable in respect of sale of short-term investments	870	-	-	-	870
Proceeds from sale of investment in investee	701	680	-	680	1,397
Purchase of fixed assets on credit	1,930	3,704	1,206	3,704	4,221
Investments in a subsidiary in respect of issuance of shares	-	36,582	-	36,582	36,575
Amounts receivable from sale of land, rental building and fixed assets on credit	10,982	-	-	-	76,028
Partial acquisition of subsidiary against the issuance of shares, options warrants and debentures to the minority	-	-	-	-	24,687
Investment in investee company by issuance of capital in a subsidiary	-	10,847	-	-	10,847

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2004 (Unaudited)	June 30 2003 (Unaudited)	June 30 2004 (Unaudited)	June 30 2003 (Unaudited)	December 31 2003 (Audited)
	Reported Amounts*	Amounts adjusted to the effect of inflation in terms of NIS of December 2003	Reported Amounts*	Amounts adjusted to the effect of inflation in terms of NIS of December 2003	Amounts adjusted to the effect of inflation in terms of NIS of December 2003
	NIS thousands	NIS thousands	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

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

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2004	2003	2004	2003	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	Reported	Amounts	Reported	Amounts	Amounts
	Amounts*	adjusted to the	Amounts*	adjusted to the	adjusted to the
		effect of inflation		effect of inflation	effect of inflation
		in terms of NIS of		in terms of NIS of	in terms of NIS of
		December 2003		December 2003	December 2003
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Assets and liabilities of					
previously consolidated					
companies as at the date of					
their exit from the					
consolidation					
Working capital, net					
(excluding 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
	-	-	-	-	29,689

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

