

Shrem. Fudim, Kelner and Co. Ltd.

Part B-Directors' Report on the Company's Business Condition For the Period Ended December 31, 2004

Pursuant to the Securities Regulations (Periodic and Immediate Financial Statements"), 1970, we are pleased to submit the Directors' Report on the Business Condition of Shrem. Fudim, Kelner and Co. Ltd.. ("the Company") for the year ended December 31, 2004 ("the reporting year" or "the reporting period") and for the fourth quarter of 2004 ("the fourth quarter"). The Company and its subsidiaries will be referred to as the Group in this report.

1. Summarized description of the entity and its business environment

The Company is a holding company that operates primarily in the areas of capital markets, industry, communications and technology, real estate and infrastructures, digital printing and commerce and services.

The Company engages independently and through its affiliates in acquisition, establishment, enhancement and business development of operations and companies in the sectors described above and, in addition, the Company deals, inter alia, in consultation and providing management services to affiliated companies, in managing a hedge fund, in providing advisory services in the area of investment banking and in consultation and management of a number of venture capital funds.

The Group aspires to advance and to develop existing holdings while continuing to implement the business strategy that it has adopted, at the core of which is a program of business and organizational concentration together with expansion of the Group's operations abroad. This strategy is intended to conform the business structure of the Group to the business environment in Israel and in the world.

The Company is the controlling interest in, among others, Leader Holdings and Investments Ltd. ("Leader"), which is a public company, the securities of which are registered for trade on the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange"). Leader is a holding company which, inter alia, operates in the capital market sector through its subsidiaries, Leader Underwriting (1993) Ltd. and Leader and Co. Investment House Ltd. Leader and these subsidiaries are engaged, among other things, in providing management services, underwriting, consulting and handling securities offerings, distribution of securities bundles, investment advice and brokerage to institutional organizations.

The Company is the controlling shareholder of, inter alia, Polar Investments Ltd. ("Polar Investments"), which is a public company, the shares of which are registered for trading on the Stock Exchange. Polar Investments has direct and indirect investments in a wide variety of companies operating in different economic sectors, that include as of the date of this report: communications and technology, digital printing, real estate and infrastructures and commerce and services.

Leader is also the controlling shareholder of Urdan Industries Ltd ("Urdan"), which is a public company, the securities of which are registered for trading on the Stock Exchange. Urdan is engaged, directly and through companies that it controls, in the areas of industry and commerce, while focusing on metals, compounded products and plastics, construction and development products, construction finishing products, paints, undercoating products for painting and sealants.

The Company acts to identify projects with growth potential in all areas of business activity and to utilize its own and/or the Group's managerial and financial resources

in order to aid companies in which it has invested, to realize this potential. Concurrently, the Group takes steps to liquidate existing holdings which no longer blend into this strategy, at the same time, acting to expand its activities in the area of investment banking and management of hedge funds. The investment policies of the Group are evaluated periodically and are likely to change.

During 2004, there was a turnaround in the operating results of the Group in comparison to the years 2002 and 2003. The major subsidiary companies ended the year with profitability as was the case of the independent activities of the Company and controlled private companies, whereas there was a substantial contraction in the volume of financial liabilities.

The Company concluded each of the quarters of 2004 with profits. Thus, the Company ended 2004 with net income of approximately NIS 50.6 million as compared with a loss of NIS 32.9 million in 2003. The Company displayed net income for the fourth quarter of NIS 11.5 million in comparison with a loss of NIS 8.7 million in the parallel quarter of the previous year.

During the reporting period and through the date that the financial statements were issued, the Company, Leader and private companies under their control realized shares and options in traded companies (mostly Leader, Technologies, Urdan, Polar Investments, BSR, DS Securities and Opti Canada) for consideration totaling approximately NIS 255 million and for a gain of NIS 61 million.

The value on the Stock Exchange of the current holdings of Polar Investments in the marketable shares of major affiliated and other companies, such as Nipson (as described below), Maind, Aral Communications, Partner, Industrial Buildings, etc. totals (in proximity to the date of this report) approximately NIS 493 million and reflects an excess of value of NIS 286 million in comparison to the value of these holdings recorded in the accounts at the end of 2004.

2. Exceptional events during the reporting period and until close to the date of circulation of this report

- 2.1** On January 1, 2004, the Sphera Fund (“Sphera”) was established, a hedge fund that concentrates on investing in securities of companies in Israel or connected with Israel which are traded in Israel and on international markets. The fund is managed by managing entities controlled by the Company and with the participation of three private Israeli companies, held by someone who is not an interested party in the Company (“the limited partners”) which are entitled to management fees at the rate of 1.5% of the volume of the fund and 20% of its earnings, as defined in the agreement to invest in the fund. As of the date of this report, the limited partners are entitled to one-half of the balance of the management fees (after covering the costs of the fund manager) and of the profits of the managing entity. Also see Note 10Q to the financial statements.

In proximity to the date that the report is issued, the volume of the fund is estimated at an amount in excess of \$ 100 million. The value of the investment of the Company, the affiliated companies and an interested party in Sphera totals approximately \$ 13.1 million, \$21.6 million and \$ 5.3 million, respectively. The net yield of the fund to its investors in dollar terms for the year 2004 and for the period until close to the date that the financial statements are being published, was approximately 28% and 8.5%, respectively.

- 2.2** Close to the date that the financial statements were published, Leader signed an agreement with B.S.R. Engineering and Development Ltd. (“the Purchaser”), the joint controlling owner, together with Leader, in B.S.R., for the sale of all of the securities of B.S.R. (shares, options and debentures) owned by Leader, “as is”, for a total price of approximately NIS 105 million. The price will be paid in three installments, the last of which will be paid by April 17, 2005 (“the final date”). The agreement stipulated agreed compensation of NIS 5 million to Leader if the entire price is not paid to Leader by the final date, as long as the cause was not initiated by Leader.

In addition, on the date that the purchaser will pay NIS 80 million out of the total price in the agreement, the validity of the B.S.R. shareholders’ agreement will expire, the right of Leader to receive management fees from B.S.R. will expire beginning in April 2005 and the right of Leader to appoint directors in B.S.R. will also expire, and the resignation of the directors of B.S.R., who were appointed on behalf of Leader will become effective.

Leader anticipates including a pre-tax capital gain of approximately NIS 30 million (the Company’s share-NIS 20 million) from this transaction in its financial statements for the first quarter of 2005. Through the date of issuance of this report, over NIS 80 million of the price had been paid to Leader.

- 2.3** In the past, the Company and Mr. Y. Shrem had been sued as part of a counter claim that was attached to a claim in Florida, for the payment of \$ 3.1 million and punitive compensation, by the CCF company, controlled by Mr. Shlomi Ranot of Israel and its subsidiary (hereinafter-“the CCF claim”).

In November 2004, the District Appeals Court of Florida rejected the appeal of the claimants in the CCF claim (on the decree of the court in Florida to reject the CCF claim) in a decree which became final and absolute in December 2004.

In February 2005, the parties reached agreement on the cancellation of the proceedings which had been suspended in the matter of costs and the mutual waiver of future claims, subject to having CCF pay the Company the amount of \$ 226 thousand, which was received after the balance sheet date.

As a result of the above, the Company’s management decided to cancel provisions that had been included in the past with regard to this claim in the 2004 financial statements.

- 2.4** In February 2004, after receiving the court’s approval to make a distribution which does not comply with the “profits test”, Ytong Industries distributed the sum of approximately NIS 80 million as dividends to its shareholders.

In May 2004, after receiving the court’s approval to effect an additional distribution which does not comply with the “profits test”, Ytong Industries distributed the sum of approximately NIS 55 million as dividends to its shareholders.

Urdan’s share (direct and indirect) of the above distributions amounted to NIS 114 million. The amounts that were received as the result of the dividend distributions served, for the most part, for the repayment of loans that had been given to Urdan and its subsidiary by Bank Leumi Le’Israel Ltd.

- 2.5** In April 2004, Leader and Polar Investments sold their entire holdings in Opti Canada on the stock exchange in Canada for NIS 7 million and NIS 45 million, respectively, and derived a capital gain (pre-tax), that was included in the quarter, of NIS 5 million and NIS 31 million, respectively.
- 2.6** In May 2004, Polar Investments completed the sale of the entire control and ownership in Koonras to Polar Communications in consideration of NIS 79 million, and in this manner, the communications and technology segments of the Polar Group were consolidated within Polar Communications, while creating a diverse investment portfolio with critical mass in these sectors.
- 2.7** In July 2004, Nipson concluded an offering of its shares on the stock exchange in London (AIM) in an amount of approximately \$ 18.4 million (\$15.8 million, net), which includes \$ 3.7 million from a subsidiary (indirect) of Koonras Technologies. Accordingly, a gain from a third party offering of NIS 30 million (Polar Investment's share) was included in the financial statements of Polar Investments.

On 15.3.2005, Nipson carried out an additional offering of its shares on the AIM in which it raised the amount of approximately \$ 11 million. Also, as part of the offering, Polar Communications sold (directly and indirectly) shares of Nipson for \$ 10 million. With the completion of the offering and the sale, the ownership of Polar Communications (indirect) in the share capital of Nipson was reduced to 50.7%. A pre-tax gain from an offering and sale to a third party of NIS 36 million is expected to be included in the financial statements of Polar Investments for the first quarter of 2005. Completion of the offering is conditional upon obtaining the approval of the AIM stock exchange to register the new shares for trading, which in essence is a formality.

- 2.8** In July 2004, Maalot raised the rating of the debentures of Polar Investments two levels to the BBB+ ranking. In its analysis, Maalot stated that it considers as positive the operations of Polar Investments and its intentions to continue to reduce the volume of its debts while creating long-term leverage for growth together with improving financial ratios in general, and the ratio of debt coverage in particular, and also that it will continue to monitor these developments and to positively indicate their ramifications on the ranking of the debentures of Polar Investments.
- 2.9** During the reporting period and subsequent thereto, NIS 3,500 thousand and NIS 1,000 thousand par value of debentures (Series B) of the Company were converted into 437,500 and 125,000 ordinary shares, par value NIS 1 each of the Company, respectively.
- 2.10** During the reporting period, the Company converted 15,925,000 par value of Leader's debentures into 1,990,625 shares of Leader. In addition, the Company exercised all of the series I options that it had held into 3,733,150 par value of Leader shares in consideration of approximately NIS 15 million. Also, an outside investor converted 450,000 par value of debentures into 56,250 shares of Leader. Following these transactions, Leader's shareholders' equity increased by approximately NIS 30 million.

- 2.11** See Note 22E to the financial statements in connection with the legal decision and decree relating to an indictment against Leader, a former officer in Leader and others in the matter of a prospectus for an offering of securities of Orsyx Ltd.
- 2.12** In 2004, Polar Investments signed two agreements as the result of which the holdings in Polar Real Estate increased to 100%. See paragraph 8.8.1.1. in Part A of the Description of the Company's Business, that is attached to the Periodic Reports
On March 29, 2005, Polar International-Real Estate. Tourism and Management Ltd. filed a prospectus with the Israel Securities Authority for an initial public offering to the public and registration for trading on the Tel-Aviv Stock Exchange of shares and other securities.
- 2.13** During the reporting year, most of the holdings of Polar Investments in Transclal were sold for a price of approximately NIS 46 million and a capital gain (pre-tax) of NIS 14 million.
- 2.14** In August 2004, Dirad Investments Ltd, a private company in which the Company holds approximately 28.7% of equity (hereinafter-"Dirad"), announced that PSI Net Europe B.V. (hereinafter-"PSI") had sold, in two transactions, its assets and operations in western Europe for a total price of NIS 112 million ("the sale"). PSI is a company in which Dirad indirectly holds approximately 10% (through a partnership in which Dirad owns 33.3% fully diluted and which owns 30.3% in PSI). Following the distribution of most of the sales price by PSI, Dirad recorded net income of NIS 19.3 million for the reporting year, in which the Company's share is NIS 6 million.
Dirad is a venture capital fund that is engaged, inter alia, directly and indirectly, in the holding and realization of entities, the major activity of which is in the communications and Internet sectors.
In 2004, Dirad Investments distributed dividends of approximately NIS 18.7 million. The Company's share of the dividends was NIS 5.4 million.
- 2.15** In February 2005, Polar Communications presented an irrevocable offer to Partner to sell all of its ownership of Partner shares in consideration of the total amount of NIS 136 million. At the same time, both Eurocom Ltd. and Elbit Communications Ltd (hereinafter-Polar Communications, Eurocom and Elbit-"the sellers") presented corresponding offers relating to the shares of Partner which they own. The consideration will be determined on the basis of a price per share that will be equivalent to 90% of the weighted average of the share price of Partner during the 20 trading days that preceded receipt of the approval of the shareholders' meeting of Partner, but not more than NIS 32.22 per share nor less than NIS 31.04 per share.

On 23.2.2005, the board of directors of Partner authorized the transaction and a notice of same was given to Polar Communications. On 14.3.2005, Partner advised that it had received the approval of the Ministry of Communications to revise the terms of its general license and to acquire the Partner shares from the sellers. Among other things, the closing of the transaction is conditional on obtaining the necessary approvals from Partner's lending banks, regulatory permits, including those of the Ministry of Communications and the Commissioner of Restrictive Practices, and authorizations of the authoritative institutions of Partner, including approval of Partner's general shareholders' meeting. Assuming receipt of all of the advance approvals to execute the transaction, the transaction is anticipated to close within a period not to exceed 80 days from the date of the offer.

There is no certainty that the above approvals will be obtained and that the transaction will close.

In certain cases in which the transaction will not obtain the approvals necessary, an alternative arrangement was agreed upon between the sellers and Hutchinson International Communications Ltd. ("Hutchinson"-the principal shareholder in Partner) that would allow the sellers to sell the Partner shares that they own in stages and in an orderly manner on the market and also to grant an option to Hutchinson to purchase up to approximately 44% out of these shares at a 12% discount from the average share price on the market in proximity to that date. This alternative arrangement, as to which there is no certainty that it will be realized, also is subject to certain approvals, including regulatory permits.

The right to collaborate in the sale or the alternative arrangement, or to sell back the Partner shares that it owns to the sellers within three months of the date that they sold the Partner shares, in proportion to their holdings, was given to Matav Investments Ltd. ("Matav"), a shareholder in Partner. Should Matav exercise this option, the quantity of shares being sold by Polar Communications will be reduced and concurrently, the overall consideration to Polar Communications will be reduced by approximately 18%.

As a result of the sale and pending its completion, Polar Investments expects to record a pre-tax gain of between NIS 86 million and NIS 113 million, depending on the share price and on the quantity of shares sold.

- 2.16** In February 2005, Telit, of which Polar Investments owns 95% of share capital, announced that it intended to carry out an offering of its shares on the AIM stock exchange. In this offering, it will raise the amount of approximately \$ 35 million on the basis of a company value (after the money) of \$ 100 million. Conclusion of the offering is expected at the end of March or beginning of April 2005, although there is no assurance that the process will indeed be completed. Additionally, the offering, its volume and the value of Telit are subject to market conditions at that time and to external factors that are not dependent on Telit.

Should the offering become an actuality in the above configuration, the holdings of Polar Investments in the share capital of Telit will be diminished to 55%, and a gain from an issuance to a third party of NIS 55 million will be recorded in the financial statements of Polar Investments.

- 2.17** E.E.R Environmental Resources and Energy Company (Israel) Ltd. (EER) is engaged in the development of innovative technology to dispose of solid municipal waste, medical waste and radioactive waste by medium and low frequencies, and also is engaged in the construction of a plant for the disposal of waste by the use of the aforementioned knowledge and technology.

The Company, Urdan Technologies and entities managed by the Company effectively own 8.6%, 20.3%, 3.15% and 5.3%, respectively, of the share capital of EER.

In May 2004, EER signed an agreement in principle to cooperate with the Government of the Ukraine and the Kortzov Institute, according to which the Government of the Ukraine is prepared to use the technology that will be jointly developed by the scientists of the Kortzov Institute, the Radon Institute and EER for the purposes of erecting a number of radioactive waste elimination plants with a low radiation level in Chernobyl ("the project"). The project is intended to be executed under the BOT method, with EER being responsible to construct, to operate and to turn over the plants. The agreement in principle stipulates that within 60 days of signature, the parties will prepare the programming work for the project. As of the date of this report, a detailed agreement has not yet been signed by the parties nor has a financing program for the project been devised.

In March 2004, EER signed a number of agreements with Mr. Makoto Takhishi, directly or through companies that he controls ("the Japanese investor"), under which 10% of the share capital as of that date will be issued to the Japanese investor in exchange for NIS 22.6 million, that is a company value (after the money) of approximately NIS 226 million.

In addition, a memorandum of understanding was signed between EER and the Japanese investor under which AAR will issue approximately an additional 5.1% of its shares in consideration of NIS 18 million, that is at a company value (after the money) of NIS 355 million. After completing execution of this investment, the ownership percentage of the Company and Urdan decreased to 8.6% and 20.3%, respectively, of the share capital of EER. During the fourth quarter, the Japanese investor transferred the amount of NIS 13 million for 3.8% of EER's share capital, and the balance of his investment commitment after the reporting date.

As a result of the above issuances by EER, the Company and Urdan earned deferred profit of NIS 6.1 million and NIS 11.7 million, respectively, which will be recorded in the statement of operations of the Company as per the higher in a cumulative calculation of equal parts in a three year period from the date that it was created or up to the Company's share in EER's losses, in accordance with Accounting Opinion No. 68 of the Institute of Certified Public Accountants in Israel. Accordingly, the Company and Urdan recorded gains of NIS 1.7 million and NIS 3.0 million, respectively, in their statements of operations for the reporting period.

See also Note 10D to the financial statements for additional details and as to a petition made to the Haifa Administrative Court against continuing the construction of a plant by EER in the area of Obelin due to an allegation that it will cause environmental damage.

In August 2004, a term sheet between EER and a group of foreign investors, none of whom is an interested party in the Company, was signed on the subject of an investment in EER. Before the above term sheet expired, the representatives of the parties held negotiations on a different transaction, as per which the Company, Technologies, and Urdan (additional shareholders) will sell their holdings in EER at a company value of \$ 220 million. The representatives of the parties also did not reach a binding agreement in the course of these negotiations. During recent months no negotiations were held although the contacts between the parties continue "on a low flame". EER is unable to evaluate if and when this contact will develop into a binding transaction.

See Section 3.7.3 in Part A, Description of the Entity's Business, which is attached to the Periodic Reports.

2.18 In March 2005, Polar Investments and a group of institutional investors agreed to a private placement of the securities of Polar Investments. Polar Investments will raise the amount of approximately NIS 107 million in debentures and will grant the investors 749,000 non-marketable options, convertible into shares of Polar Investments. The debentures will be issued at their par value (100%), will be index-linked (principal and interest), will bear annual interest of 5.5% and will be redeemable in one payment on 31.3.2010. The interest will be paid semi-annually. Each option will be exercisable to one NIS 1 par value share of Polar Investments, during 5 years from the date that it was issued, in consideration of a cash payment of NIS 85 per option, index-linked. On the assumption of exercise of all of the options, the exercised shares will represent approximately 12.8% of Polar Investment's issued share capital and 13.41% of the voting rights in Polar Investments.

Leader is committed to purchase, from all of the investors who so choose, all of the offered options at a price of NIS 7.5 per option on the date that the debentures are paid off. Some of the investors took advantage of their right and sold approximately 17% of the above options to Leader. The conclusion of the private placement is subject to obtaining the approval of the Tel-Aviv Stock Exchange to register the shares derived from the exercise of the options for trading. Polar Investments received a ranking of BBB+ for the aforementioned debentures from Maalot Rating.

2.19 In March 2005, Urdan signed agreements relating to a conditional transaction to sell its rights in a 56 hectare plot of land in the industrial area of Netanya on which the company's steel factory is situated ("the real estate") for approximately \$ 13 million, with Urdan leasing the real estate for a ten year period at an annual rental of \$ 1.3 million.

The lease period may be shortened by the Company by four years or by two years, or may be extended for three additional periods of 5 years each, at the option of Urdan.

Should the transaction be concluded, Urdan anticipates including capital gain (pre-tax) of approximately NIS 38 million (after tax-NIS 25 million) in its 2005 financial statements. See Note 22A3(6) to the financial statements as to the share of Leader and the Company in this gain.

2.20 In 2003, a transaction was completed in which the Company, together with the other controlling shareholders in DS Securities (Leader and Mr. Simha Reshef), sold 2,817,421 shares of DS Securities (including 959,472 and 962,084 shares of the Company and Leader, respectively), which, together with the shares of DS Securities which were sold to the purchaser by its employees, represent 50.1% of the issued and paid up share capital of DS Securities, for the price of NIS 16.45 per share-see Note 10H to the financial statements.

In October 2004, the Company entered into an agreement with the purchaser according to which it sold 442,000 ordinary shares of DS Securities at a price of NIS 14.75 per share in an off-stock-exchange transaction for total consideration of approximately NIS 6.5 million. The pre-tax gain that the Company recorded was NIS 3 million. With conclusion of the transaction, the rate of ownership of the Company in the share capital of DS Securities decreased to approximately 10%.

Subsequent to the balance sheet date, the Company notified the purchaser that it had decided to exercise the put option which it had received. Accordingly, the purchaser acquired the balance of the Company's shares in DS Securities from the Company, that is 758,000 shares ("the sold shares"), at a price of NIS 15.7 per share, and a total consideration of NIS 11.9 million. According to the conditions of the put option, the purchaser paid the consideration for the sold shares to the Company within fourteen days from the date of notification of exercise.

The anticipated pre-tax gain from the sold shares is approximately NIS 6 million.

As the result of exercising the put option by the Company, the non-competition obligation that had been imposed on the Company and on Leader was cancelled.

2.21 In January 2005, Leader sold its entire holdings in Kamor in exchange for NIS 29 million and, accordingly, the investment is presented as of the end of 2004 with current assets as an investment designated for sale.

2.22 Subsequent to the balance sheet date, and as part of a private offering, NIS 10,912,500 par value of debentures (Series C), convertible into ordinary shares of NIS 1 par value, registered in the name of the Company, were issued at par value, so that each NIS 22.5 par value of debenture principal may be converted into one ordinary share of the Company, that is 485,000 ordinary shares, par value of NIS 1 each, of the Company, subject to adjustments (hereinafter-"the conversion shares"). The conversion shares represent approximately 2.63% of the issued and paid up shares of the Company, on the assumption that the offeree will convert the debentures to shares immediately after they are issued (2.26% fully diluted).

The principal of the debentures will be paid in one installment at the end of five years from the date that the debentures were issued. The debenture principal is linked to the representative rate of the U.S. dollar and bears interest linked to the U.S. dollar at the rate of 5% per annum, which is to be paid once annually on March 31 of each calendar year until the date of redemption.

3. Evaluations

3.1 Dor Chemicals Ltd. ("Dor")-In February 2005, Polar Investments, through the Vice President of Dor, ordered an evaluation of Dor from an external appraiser, in which Dor's value was estimated at between NIS 124 million and NIS 145 million. Accordingly, Polar Investments recorded a reduction to adjust the value of its investment in Dor in its financial statements for the fourth quarter of 2004 of approximately NIS 22 million. This evaluation is attached to the Periodic Report of Polar Investments.

3.2 D.B.S Satellite Services Ltd. ("YES")-In February 2005, Polar Communications, ordered an evaluation of YES from an external appraiser, in which YES's value was estimated at between \$ 332 million and \$ 405 million. Accordingly, no reduction to adjust the value of the investment in YES was included in the financial statements of Polar Communications, over and above those that had been made in 2002 and 2003. This evaluation is attached to the Periodic Report of Polar Communications.

4. Financial condition

The following is data from the consolidated balance sheet and from the balance sheet of the Company and controlled private companies (*) in reported NIS millions of December 2004:

	As of December 31, 2004			As of December 31, 2003
	Consolidat ed balance sheet	Company balance sheet	Balance sheet of Company and controlled private companies (*)	Balance sheet of Company and controlled private companies (*)
Current assets	1,584.1	86.2	90.8	99.0
Investments in companies and loans to affiliated and other companies	850.0	308.4	301.4	249.2
Real property	452.2	-	-	-
Fixed assets	711.1	24.7	26.0	26.9
Other assets and deferred charges	140.0	-	1.8	1.8
Total assets	<u>3,737.4</u>	<u>419.3</u>	<u>420.0</u>	<u>376.9</u>
Current liabilities	1,594.3	130.7	125.7	116.7
Long-term liabilities	1,422.5	62.6	62.7	93.1
Minority interest	483.6	-	5.6	0.3
Receipts for options issued by subsidiaries	11.0	-	-	-
Shareholders' equity	226.0	226.0	226.0	166.8
Total liabilities and shareholders' equity	<u>3,737.4</u>	<u>419.3</u>	<u>420.0</u>	<u>376.9</u>

(*) In this report, the meaning of "the Company and controlled private companies" is the consolidated balance sheet in which public companies owned directly by the by the Company are presented on the equity method (Leader and Shrem, Fudim, Kelner-Technologies Ltd. ("Technologies")).

- The Company's shareholders' equity as of December 31, 2004 amounted to NIS 226.0 million and represented approximately 54% of total assets of the Company and controlled private companies. Shareholders' equity as of December 31, 2003 totaled NIS 166.8 million and represented approximately 44% of total assets.
- The increase in shareholders' equity in the reporting period derives mainly from the Company's earnings of NIS 50.6 million, from conversion of debentures to shares of the Company in the amount of NIS 3.3 million and NIS 1.9 million from the sale of Company shares that it and a subsidiary had held.

- The current assets amounted to NIS 90.8 million as of December 31, 2004 as compared to NIS 99.0 million at the end of 2003. The decrease in current assets is primarily the result of a decrease in the marketable securities portfolio in the wake of the commencement of operations of the Sphera Fund.
- Investments and loans in affiliated and other companies amounted to approximately NIS 301.4 million as of the end of December 2004 as compared with NIS 249.2 million at the end of December 2003. The increase is derived primarily from the Company's share in the earnings of affiliated companies (mainly Leader and Dirad in the amount of NIS 50.6 million) and from the increase in the net investment in Leader, after deducting the effect of the realization of DS Securities, as described above.
- The financial liabilities to banks, others and for debentures (long-term and short-term), net of liquid resources, of the Company and controlled private companies amounted to NIS 97.6 million as of the reporting date, while as of December 31, 2003, they were at NIS 110.8 million. This decrease in the volume of credit results from the improvement in the Company's liquidity.

5. Operating results of the Company and controlled private companies

General

As stated above, 2004, was a turnaround year for the operating results of the Group in comparison to the years 2002 and 2003. The major subsidiary companies ended the year with profitability as was the case of the independent activities of the Company and controlled private companies, which concluded the year with operating revenues from consultation and management of approximately NIS 39.3 million.

The recovery of the capital markets, the efficiency actions taken and the focusing of business strategy of the Group left their mark on the improvement in the Group's results.

The Company and controlled private companies indicate revenues from consultation and management and from participation in the earnings of funds of NIS 39.3 million for 2004 (as compared with NIS 18.9 million in 2003), and revenues in the same categories of NIS 15.6 million for the fourth quarter (against NIS 7.7 million in the same quarter last year).

The growth as above in the volume of revenues is the result of the commencement of operations of the Sphera Fund and an increase in the volume of investment banking activities of the Group (mainly consultation by Shrem Fudim Kelner-Finance and Projects Ltd. with respect to projects overseas).

The Company ended the reporting period with earnings of NIS 50.6 million against a loss of NIS 32.9 million in the comparative period last year. Earnings for the fourth quarter were approximately NIS 11.5 million as compared with a loss of NIS 8.7 million for fourth quarter of 2003. The growth in earnings as aforesaid during the reporting period is explained primarily from the growth in revenues, as described above, and from the share of the Company in the results of affiliated companies (mainly Leader and Dirad).

The future business results of the Company are conditioned on the operating results of the affiliates, in its ability to realize profits from its investments in affiliated and other companies and in the state of the Israeli economy in general, and the capital market in particular. The indications of an end to the recession, the reawakening of the financial markets, the efficiency measures taken by management and the decline in the interest rate in the economy will make an improvement in the Company's operating results possible.

Following is data from the statements of operations of the Company and controlled private companies (*) in reported NIS millions of December 2004:

	2004	2003	Quarter 4 2004	Quarter 4 2003
Revenues from consultation, management, and participation in the earnings of funds	39.3	18.9	15.6	7.7
Profit (loss) from long-term investments, net	(1.6)	1.4	(1.8)	0.3
Profit from marketable securities, net	14.7	34.7	7.4	10.5
Total costs and other expenses	<u>(36.0)</u>	<u>(39.0)</u>	<u>(11.3)</u>	<u>(11.7)</u>
Net income before financing	16.4	16.0	9.9	6.8
Financing expenses, net	<u>(11.3)</u>	<u>(14.4)</u>	<u>(2.5)</u>	<u>(3.7)</u>
Profit after financing	5.1	1.6	7.4	3.1
Profit from decline in percentage held	4.0	6.2	2.7	-
Company's share in results of affiliates, net	49.1	(38.5)	6.2	(11.8)
Tax expense, net	(0.5)	(2.2)	(0.2)	-
Minority interest in subsidiaries' results	<u>(7.1)</u>	<u>-</u>	<u>(4.6)</u>	<u>-</u>
Net income (loss) for the period	50.6	(32.9)	11.5	(8.7)

(*) In this report, the meaning of "the Company and controlled private companies" is the consolidated statement of operations in which public companies controlled by the Company are presented on the equity method.

The operating results of the Company and controlled private companies during the reporting period are explained as follows:

- During the reporting period, the Company presented profits from marketable securities of only approximately NIS 14.7 million as compared with NIS 34.7 million in 2003, due to the reduction in the volume of the managed portfolio upon the beginning of the operations of the Sphera Fund (see Section 2.1 above), and also because of the fact that the yield on an investment in shares in 2003 was immeasurably higher than in 2004. Thus, for example, the 100 Index rose by 60.7% in 2003 as compared with 21% for 2004 and the Nasdaq Index went up 54.7% vs. 8.6%, respectively.

- The Company's share in the earnings of affiliated companies amounted to NIS 49.1 million and NIS 6.2 million during the reporting year and fourth quarter, respectively, and was derived principally from the share of the Company in the earnings of Leader and Dirad (in the comparative periods last year-losses of NIS 38.5 million and NIS 11.8 million, respectively).
- Total costs and expenses amounted to NIS 36.0 million in 2004 vs. NIS 39.0 million for 2003 (NIS 11.3 million in the fourth quarter vs. NIS 11.7 million in the parallel quarter last year). The net reduction in the costs of the reporting period was due mainly to the cancellation of provisions to cover exposures for law suits and other risks that were charged in the previous year, after having received a legal decree in favor of the Company (see Section 2.2 above), this despite the increase in the provision for bonuses to executives and employees as an upshot of the performances of the Company and privately held affiliates.
- The improvement in the operating results of the Company and controlled private companies, which are concentrated in the capital markets sector, is reflected in significant growth in revenues in this area from approximately NIS 27.6 million in 2003 to NIS 46.5 million in 2004, an increase of 68%.
- Commencing with the reporting period, the Company is implementing Accounting Standard Number 12, the subject of which is cessation of the adjustment of financial statements and, therefore, adjustment was discontinued beginning on January 1, 2004, (see also Note 2A to the financial statements), an aspect that affected the volume of financing expenses included in the financial statements.
- The financing expenses of the Company and the controlled private companies amounted to approximately NIS 11.3 million in the reporting period (NIS 2.5 million in the fourth quarter) as opposed to NIS 14.4 million in 2003 (NIS 3.7 million in the fourth quarter of 2003). The financing expenses can be explained primarily by the negative effect of the drop in the CPI in 2003 by 1.9% on borrowings at fixed interest by the Company during that year and also the effect of the reduction in the Company's obligations to banks, this despite the negative effect of ceasing to adjust the financial statements to the CPI following the adoption of Accounting Standard No.12 on January 1, 2004.

6. Consolidated operating results of the Company

The revenues from sales, services, consultation, management and underwriting ("revenues") totaled approximately NIS 1,819.4 million for the reporting year as compared with revenues of NIS 1,374.2 million for 2003. The increase in revenues the reporting period results mainly from the growth in revenues of Polar Real Estate, for the most part from recording first-time revenues from the Life Park residential project in Herzlia Pituah, from the increase in the revenue recognition rate from the Holyland project and from completion of the sale of a real estate asset in Tel-Aviv.. In addition, the increase is derived from a faster pace of sales of Day Telecom Ltd. and from the consolidation of the revenues of an Italian subsidiary commencing with the reporting period, and from growth in the operations of companies in the Urdan Group. Additionally, the increase is derived from the rise in revenues of the Company from consultation and management, as described above, and the growth in brokerage and underwriting revenues by Leader due to the improvement in the capital market during 2004.

The profit from investments in affiliated and other companies and in net assets, for the reporting period amounted to approximately NIS 158.9 million as compared to profit of NIS 1.4 million last year. The profit for the reporting period is primarily the result of realization of investments in Maind, Pointer, Hazrot Hadar, Opti Canada, Transclal and the sale of additional shares of Group companies as described above. Along with the gains that the Group earned from an offering of Nipson shares to a third party and from the sale of a building in Manhattan, which were offset in part by reductions due to adjustments in the value of investments, mainly Dor in the accounts of Polar Investments and Seikal in the accounts of Urdan.

The loss in the comparative period last year resulted mainly from the realization of investments in marketable securities, in particular DS, Nice, Maind, Compugen and Partner, together with a profit that the Group derived from the expiration of options that were issued by Polar Communications, which was partially offset by reductions due to adjustments in the value of investments, mainly by Polar Communications, Polar Real Estate, Koonras and Urdan.

The financing expenses for the reporting year amounted to approximately NIS 140.9 million against NIS 177.6 million in 2003, due to the reduction in the liabilities situation of the consolidated Group.

In the fourth quarter, Polar and Urdan recorded tax benefits of approximately NIS 7 million and NIS 13 million, respectively, in connection with losses for which deferred taxes had not been recorded due to the assessment of the managements of these companies that there was high probability of realizing them in the foreseeable future.

The improvement in revenues as well as the capital gains in 2004 resulted in pre-tax earnings for the reporting year of approximately NIS 139.5 million vs. a loss of NIS 75.9 million in 2003.

Following is a summary of operating data from the consolidated financial statements (in reported NIS millions):

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2004	2003
Revenues from sales, consultation, services, management and underwriting	455.8	456.5	449.7	457.4	1,819.4	1,374.2
Gain from marketable securities, net	17.1	0.8	3.3	23.4	44.6	110.5
Gain (loss) from long-term investments, loans and assets, net	28.2	61.5	77.5	(8.3)	158.9	(1.4)
Company's share in earnings (losses) of affiliates, net	11.8	17.6	9.5	(1.2)	37.7	10.9
Total revenues	512.9	536.4	540.0	471.3	2,060.6	1,492.2
Costs of sales and services	345.3	340.5	338.1	342.0	1,365.9	999.1
Selling and marketing	42.6	48.1	41.6	41.5	173.8	159.4
Administrative and general	65.0	57.8	71.5	53.2	247.5	234.0
Financing, net	28.8	48.1	35.6	28.4	140.9	177.6
Total expenses	481.7	494.5	486.8	465.1	1,928.1	1,570.1
Profit (loss) before taxes on income	31.2	41.9	53.2	6.2	132.5	(75.9)
Taxes on income (expenses)	(6.8)	(8.0)	(18.3)	15.2	(17.9)	16.3
Profit (loss) after taxes on income	24.4	33.9	34.9	21.4	114.6	(92.2)
Minority interest in consolidated results, net	(12.9)	(16.5)	(24.7)	(9.9)	(64.0)	69.0
Loss attribute to discontinued operation	-	-	-	-	-	(9.7)
Net profit (loss) for the year	11.5	17.4	10.2	11.5	50.6	(32.9)

See Note 30 to the financial statements for data on operating segments.

Cash flows used for current operations during the reporting period amounted to approximately NIS 290.3 million and served principally for the current operations of Urdan, Day Telecom, Nipson and interest payments of Polar Investments, which was offset by the activities of the Leader Group and controlled private companies in the capital market and from the current operations of Polar Real Estate and Ophir Holdings,

Cash flows derived from investment activities totaled approximately NIS 367.3 million in the reporting period and its source was mainly the proceeds from realization of investments of NIS 367.5 million, principally Opti Canada, Hazrot Hadar, Scope, Transclal, Maind, Industrial Buildings, and realizations in the Company, the Leader Group and controlled private companies, as described above, and the sale of fixed assets and real estate (net) in the amount of NIS 178.0 million, primarily the sale of a building in Manhattan by Polar Real Estate. These proceeds were offset in part by investments in affiliated and other companies (net) of NIS 143.7, mainly the acquisition of additional shares in Polar Communications, in Polar Real Estate and an investment in Grand Auto.

Cash flows that were used in financing activities totaled approximately NIS 205.1 million during the reporting period, the result of repaying short-term loans and debentures and financial leasing obligations, net of the proceeds from the offering of Nipson and the net receipt of loans by affiliates.

7. Directors with accounting and financial skills

In accordance with the directive of the Securities Authority under Section 36A of the Securities Law, 1968 (“the directive”), the Company is required to determine the appropriate minimal number of directors (who do not fulfill other positions in the Company) who possess the proper accounting and financial skills (“skilled director”) to enable them to comply with the obligations of the board of directors by law and primarily with regard to the responsibilities of the board of directors to examine the Company’s financial condition and to prepare and approve financial statements.

The Company estimates that the experience, education and abilities of board members (who do not fulfill other positions in the Company) provides them with the proper tools to meet the obligations of the board of directors with respect to the Company’s financial statements. Accordingly, the appropriate minimal number of directors with skills in the Company was set at two directors, this after considering, inter alia, the size of the Company, the type and complexity of its operations, the number of members of the board of directors and the composition of the board of directors, which includes experienced persons with managerial and professional capabilities.

The members of the board of directors who are, in the estimation of the Company and to the best of its knowledge, directors with accounting and financial skills, and the information that serves as support for this determination are as follows:

Itschak Shrem, Chairman of the Board-academic education in the areas of economics and business management. Serves for many years as Chairman of the Board and Deputy Chairman of the Board of public companies and as a director of many companies, that include public companies. Mr. Shrem has experience and knowledge that he has accumulated in all matters that are characteristic of the capital market, to investment banking and to the remaining sectors in which the Company operates, and he is also directly responsible for the approval and issuance of the financial statements.

Since Mr. Shrem holds an active role in the Company's management, he will not be included in the number of skilled directors, as above.

Yair Fudim, CEO and director- academic education in the areas of economics and business management. Serves for many years as CEO of public companies and as a director of many companies, that include public companies. Mr. Fudim has experience and knowledge that he has accumulated in all matters that are characteristic of the capital market, to underwriting and to the remaining sectors in which the Company operates, and he is also directly responsible for the approval and issuance of the financial statements. **Since Mr. Fudim holds an active role in the Company's management, he will not be included in the number of skilled directors, as above.**

Rubin Zimmerman, Deputy Chairman of the Board- broad experience in management and serves as director in public companies.

Avraham Podohzer, Avner Cohen and David Leviatan- each has served for many years as a director and CEO of companies, and in this framework, have accumulated knowledge and experience in matters related to the capital market.

Vered Reichman- academic education in the areas of economics and business management. Served for many years as a CEO and serves as director in various companies, including a bank and economic institutions. Has vast knowledge and experience in business management and financial management.

8. Transactions from operations in the derivatives market

Aloni (a subsidiary of Urdan) holds call options for the purchase of dollars vs. NIS as follows: \$ 6.6 million at realization prices of between NIS 4.55 to NIS 4.676 to the \$, the fair value of which is an asset of approximately NIS 34 thousand. Put options were also sold in a total of \$ 8.1 million at realization prices of between NIS 4.40 to NIS 4.439 to the \$, the fair value of which is a loss of approximately NIS 0.9 thousand. These transactions are for a period ending on June 30, 2005. The maximum holding in derivatives of this company during the reporting period was \$ 9 million in call options. The maximum sales were \$ 9 million of put options and \$ 3 million of call options. The maximum holding in derivatives of this company took place on June 30, 2004. These transactions were intended in particular as a hedge against exposure in the area of suppliers credit in foreign currency.

Univerkal (another subsidiary of Urdan) had open forward transactions as of 31.12.2004 as follows: a purchase of approximately \$ 3 million the value of which as of the end of the period was NIS 13.5 million. These transactions are for a period of up to one year, they are intended as a hedge and their fair value was a loss of NIS 0.1 million. The maximum holding in derivatives by this company during the reporting period was NIS 19.4 million during the dates 10.6.2004 to 15.6.2004. These transactions were intended primarily as a hedge as aforesaid.

Due to the existence of liabilities in dollars in the accounts of the Company and controlled private companies, the Company executed hedge transactions against exposure to a change in the exchange rate of the dollar. As of December 31, 2004, there were no open hedging positions as aforesaid. The result of these transactions during the reporting period was not material.

As of the reporting date, neither the Company, Leader or Polar Investments had any significant holdings in financial derivatives.

In addition to the above, the Company and Leader operate on their own account and through a subsidiary in the Maof derivatives market by purchasing and selling derivative financial instruments, with the total collateral needed for this activity not to exceed approximately NIS 10 million for each of them. Subsequent to the balance sheet date, the amount of collateral to be provided by the Company and Leader was increased to NIS 15 million each.

9. Qualitative report on exposure to market risk and management techniques

Description of risks and management policies of market risks-

A. The Company individual who is responsible for managing market risks is the deputy CEO of the Company, Ms. Regina Ungar. The management of risks in companies that are not fully owned by the Company are administered and carried out at the level of those companies.

B. Risk factors, market risks and external factors

1. The Group operates in various areas of the capital market, which are characterized by high volatility, among other things, because of the influence of governmental political, security and economic factors in Israel and the world, over which the Group has no control. This volatility effects the volume of the public's involvement in the capital market, the volume of securities acquisitions in the primary markets, and as a result, the quantity of offerings being offered to the public.
2. There are many institutions that deal in the underwriting area and the management of offerings. During the past years, most of the activity in this area has been concentrated in the hands of a limited number of companies, with fierce competition among them. Such competition affects the commission rates collected from the issuing companies and the resolution of the values of the issuing companies. It is not inconceivable that in the future, international investment banks, with organizational and economic resources that exceed those of the Group, will begin operating in this sector.
3. Legislative changes in the area of taxation of securities and law changes that relate to revisions in the conventional underwriting process in Israel, could have an effect on the activities of the Group, which cannot be anticipated on the date of issuance of this report.
4. Companies that operate in this sector have civil and criminal exposure in their activities as underwriter, and in particular, when they act as head managers of the underwriting consortium, including exposure for law suits due to misleading details in prospectuses which they have signed. In recent years, legal claims have been filed against different entities in the capital market in relation to their obligations as aforesaid.

5. The Group has made material investments in affiliated and other companies, part of whose shares are registered for trading on stock exchanges in Israel and/or the world, and accordingly, the market value of the companies is affected, inter alia, by changes and trends in Israeli and world capital markets. The changes in securities prices of the public companies that are classified as long-term investments, do not by themselves affect the operating results, shareholders' equity, cash flows or value of the Company. In the case of a decrease in share prices, which are not considered as temporary, the profitability and asset value of the Company could be impaired, directly or indirectly.
6. Part of the companies in the Group rely in their operations on a limited number of suppliers of materials and subcontractors, which supply components that are significant to their operations. Failure of the suppliers and/or subcontractors to meet the demands of the companies, or termination of arrangements with them, could have a negative effect on these Group companies and endanger their ability to market their products.
7. A portion of the Group companies have investments in companies as to which a material part of their revenues is based on commitments with major customers, major suppliers or specific products, some of which are the result of successful tender offers. Failure to renew these commitments or to win tender offers could have a significant negative effect on the Group's operating results.
8. Part of the Group companies are involved in material law suits or legal proceedings, which if they were to lose, could have a significant effect on the operations of the Group over and above the financial exposure for which provisions have been recorded, and in certain cases, even on their value or likelihood of realization.
9. The Group owns holdings in companies in the advanced technology sector which necessitate significant investments in research and development of goods or services, where it is uncertain whether development will enable it to produce products or services which can be marketed on a commercial basis or whether they will be able to protect the technology and intellectual property that they own. Cumulative failure of these investments by the affiliates could also have an indirect negative effect on the Group's operating results.

In addition, the Group has made material investments in companies, part of which are in the initial stages of operation, which require large investments and which must cope with severe competitive conditions with well based competitors in the market.

10. The security condition in Israel and the world affects the Group's operating results.
11. The Group is not involved at all in the management of part of the companies in which it has invested, despite that the cumulative amounts invested in them could be material.

12. The Company owns material holdings in companies, the operations of which are conditional upon the provisions of a license or concession from the Ministry of Communications, which could be revoked or not renewed. These licenses and concessions might even place restrictions on the Company regarding changes in ownership, limitations on holdings in competing companies and obligations by the Company to directly and/or indirectly invest in these companies.
13. The Group has residential, commercial and office real estate investments in Israel and abroad which are affected by prices of homes, commercial areas and offices in the real estate markets in Israel and overseas, the availability of sources of financing and territorial policies of the government and other regulatory authorities.
14. Due to the variety of sources of credit of the Group and its affiliates, including those that operate abroad, there is exposure to changes in interest rates, in the rate of inflation and in currency rates that directly influence their liquid assets, liabilities and operating results. Also, an increase in the financial leverage of the Company and affiliates could enlarge these exposures.
15. The Group is exposed to changes in foreign currency rates, since it has assets and liabilities which are not in the reporting currency (balance sheet exposure) and also, since the linkage bases of revenues and expenses do not always correspond (economic exposure).
16. Part of the Group companies are exposed to changes in raw material prices, other prices and other economic indices which have a material effect on the assets or liabilities of these companies, including the companies' liabilities to suppliers, customers' debts to the companies, the value of inventories owned, etc.
17. The amounts budgeted by governmental authorities have an effect on the operations of certain Group companies.
18. Certain companies are exposed to numerous requirements of authorities that administer environmental conservation.
19. Some of the Group companies compete in a market along with competitors that have substantial resources for the financing of research and development, marketing, sales and technical support services. In addition, part of the Group companies operate in markets that are characterized by rapid technological changes and frequent introduction of new products by competitors that might change the consumption practices of the customers of these companies. The failure of these companies to meet competition, as described above, could affect their operating results in a negative manner.

C. Description of market risk management policies-

The Company's management scrutinizes and takes decisions, under changing conditions and circumstances, with regard to the volume and type of investments, the level of underwriting exposure and the extent and type of leverage of the Company.

The Company, as part of the regulation, supervision and management process of its investment in affiliated companies, is party to and receives updates of material matters in these companies from Company representatives who act as observers or board and committee members of those companies.

The Company periodically evaluates the composition of its investment portfolio, both from the operational viewpoint and from the standpoint of market values. Additionally, the Company

examines the yields of its portfolio of monetary assets from time to time and compares it to market yields of various avenues while investigating the possibility of changing the composition of the portfolio or of realizing some of its vehicles.

The Company regards most of the investments in its affiliates as long-term investments, and therefore, does not execute protective measures against changes in their values or against a decrease in the profitability of these companies.

In order to reduce the exposure to real changes in foreign currency and to changes in NIS interest rates of the Company and its affiliates, the Company acts to the extent possible to reduce exposure by maintaining a balanced linkage and interest balance sheet for the affiliated companies.

The risk management policies of the Company, as described above, are carried out principally for the Company itself. The Company does not stipulate or manage the risk policies of its affiliates. The determination of the risk management policies of the affiliated companies and their execution are undertaken directly by those companies. Also, the Company does not engage in activities intended to hedge market risks that derive from the operations of its affiliates and from the affiliated companies that they own. Moreover, the Company does not manage the total accumulated market risks and, accordingly, does not offset the market risks of one affiliated company against those of another affiliated company.

10. Contributions

The Company regards contributions to the community as an important objective in its business activities and, therefore contributes in equal portions with Leader through the DS Fund, which is a registered association that has been recognized as a not-for-profit organization. The principal purpose of the association, as was determined upon its establishment is: “to establish a fund in Israel for contributions to charitable institutions and enterprises, to institutions, to the needy and indigent, to educational, cultural, sport, artistic, scientific, research, intellectual institutions and enterprises, for scholarships to students, health, welfare and medicine”. The amount of contributions of the Company and on a consolidated basis (including contributions of the Company’s subsidiaries) during the reporting period was approximately NIS 414 thousand and NIS 1,492 thousand, respectively. The amount of contributions last year, consolidated and Company, was NIS 314 thousand and NIS 1,215 thousand, respectively.

11. Critical accounting policies

The preparation of the financial statements of the Company and its subsidiaries in accordance with generally accepted accounting principles requires it to make estimates and to assume assumptions that affect the amounts presented in the financial statements. They include estimates that require judgment in an uncertain environment and materially affect the presentation of data in the financial statements.

Following is a description of some of the critical accounting assumptions that are used in preparation of the financial statements which, at the time that they are formulated, require the making of assumptions which in the circumstances and situations, involve significant uncertainties. The Company or subsidiaries, in deciding the determination of the estimates, rely upon past experience, various facts, external factors and reasonable assumptions under circumstances that conform to each estimate. The actual results are likely to differ from these estimates.

- A. The financial statements of Company subsidiaries include deferred tax assets with respect to losses for tax purposes from prior years, the realization of which is expected in the foreseeable future, inter alia, on the basis of anticipated group earnings and on business plans of certain subsidiaries, according to which the realization of the tax benefits from the tax losses in these companies is expected. It is acknowledged that the actual fulfillment of these forecasts could vary and that, accordingly, the matter could affect the realization of the tax benefits in the future.
- B. In accordance with the rules of Accounting Standard No. 15 of the Accounting Standards Board, the Company and its subsidiaries, as the case may be, as of each balance sheet date, analyze whether events have occurred or changes in circumstances have taken place which indicate that there has been a reduction in value of one or more of the non-monetary assets to which the Standard applies. If indications of a reduction in value should exist, the Company and the subsidiaries consider whether, in such case, the amount at which the investment in the asset is presented is recoverable out of the anticipated cash flows from that asset, and to the extent necessary, records a provision for reduction in value to the extent of the unrecoverable amount. of the asset.

Determination of the estimates of the cash flows is based on past experience with this asset or similar assets, and on the best judgment of the Company and subsidiaries, as the case may be, of the economic conditions that will be present during the balance of the useful life of the asset. In determining the net sales price of part of the assets, the Company uses valuations performed by appraisers for real estate assets. The estimates also take into account the condition of the market in the vicinity in which the asset is located.

Intensification of competition in the markets in which the Company and the subsidiaries operate might materially affect the cash flow forecasts, the balance of the useful life and the determination of the net sales price of the asset.

12. Disclosure regarding the internal auditor of the entity

A. Identity of the internal auditor

Ezra Yehuda, CPA is the Company's internal auditor and was appointed to this position on July 29, 1993. The internal auditor is the owner of an auditing firm that specializes in internal auditing. The firm has 17 years of experience in performing internal auditing in public companies and it specialized in a wide variety of areas of activity. The internal auditor is not an employee of the Company, but provides it with external internal auditing services.

B. Volume of service of the internal auditor

The volume of the post of the internal auditor and his staff is approximately 150 hours per year, on the average.

C. Audit program

The annual and multi-year audit program is presented by the internal auditor to the Company's Audit Committee. The Audit Committee scrutinizes the subjects in consultation with management of the Company, and afterwards decides on the approval of the audit program (with or without changes), whereas the considerations that guide the Audit Committee are, among other things, the needs of the audit, the importance of the subjects, the frequency in which the subjects were examined in previous years and the recommendations of the internal auditor.

D. The professional standards guiding the performance of the audit

In accordance with the notification of the Company's internal auditor, he performed his audit in accordance with accepted professional standards under Section 4(b) of the Internal Audit Law, 1992.

E. The identity of the person responsible for the internal auditor

The Chairman of the Board is responsible for the internal auditor on the Company's behalf.

F. Meetings of the Audit Committee during 2004

During 2004, one audit report was prepared by the internal auditor. The discussion of the report's findings in the Company's Audit Committee took place on August 22, 2004.

G. The extent and substance of the work program of the internal auditor are reasonable under the circumstances and are adequate to carry out the purposes of the internal audit, because the subjects selected are material to the Company and were examined from different aspects. The internal auditor was given continual and unlimited autonomy with regard to all of the Company's information systems, including access to financial data of the Company, under Section 9 of the Internal Audit Law, 1992.

Report of linkage bases (in millions of reported NIS):

As of December 31, 2004	Financial balances				Total
	In or linked to foreign currency	Linked to the CPI	Unlinked	Non- financial balances	
Assets:					
Current assets	361.1	2.9	805.0	415.1	1,584.1
Real estate	-	-	-	452.2	452.2
Investments and long-term balances	129.5	171.5	53.8	1,346.3	1,701.1
	<u>490.6</u>	<u>174.4</u>	<u>858.8</u>	<u>2,213.6</u>	<u>3,737.4</u>
Liabilities:					
Current liabilities	231.8	343.6	992.2	26.7	1,594.3
Long-term liabilities	94.3	770.2	532.2	25.8	1,422.5
Minority interest and subsidiaries' options	-	-	-	494.6	494.6
	<u>326.1</u>	<u>1,113.8</u>	<u>1,524.4</u>	<u>547.1</u>	<u>3,511.4</u>
Total balance, net	<u>164.5</u>	<u>(939.4)</u>	<u>(665.6)</u>	<u>1,666.5</u>	<u>226.0</u>

Report of linkage bases (in millions of adjusted NIS of December 2003):

As of December 31, 2003	Financial balances				Total
	In or linked to foreign currency	Linked to the CPI	Unlinked	Non- financial balances	
Assets:					
Current assets	394.9	64.2	686.1	348.3	1,493.5
Real estate	-	-	-	530.4	530.4
Investments and long-term balances	120.4	230.7	33.2	1,551.6	1,935.9
Total assets attributed to continued operations	515.3	294.9	719.3	2,430.3	3,959.8
Total assets attributed to discontinued operations	-	-	-	15.6	15.6
Total	515.3	294.9	719.3	2,445.9	3,975.4
Liabilities:					
Current liabilities	341.7	222.6	990.2	23.1	1,577.6
Long-term liabilities	120.7	1,033.3	628.1	28.9	1,810.9
Minority interest and subsidiaries' options	-	-	-	404.8	404.8
Total liabilities attributed to continued operations	462.4	1,255.9	1,618.3	456.8	3,793.3
Total liabilities attributed to discontinued operations	-	-	-	15.3	15.3
Total	462.4	1,255.9	1,618.3	472.1	3,808.6
Total balance, net	52.9	(961.0)	(899.0)	1,973.6	166.8

The Company thanks its employees for their involvement with the Company and its shareholders for their trust.

Itschak Shrem-Chairman of the Board

Yair Fudim, CEO and Director

Date: March 31, 2005

Balance Sheets as at December 31

	Consolidated		Company	
	2004	2003(*)	2004	2003
	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
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Current assets				
Cash and cash equivalents	211,371	289,518	9,857	732
Deposits and short-term investments	9,337	17,095	-	-
Marketable securities	259,737	243,706	59,800	65,984
Current maturities and loans receivable	41,133	27,252	172	30,429
Trade receivables	550,086	391,451	310	577
Other receivables	160,629	202,603	16,069	6,773
Inventory and work in process	351,795	321,834	-	-
	1,584,088	1,493,459	86,208	104,495
Real estate	452,186	530,441	-	-
Investments and long-term loans				
Investments in investee and other companies	751,222	926,083	307,746	246,422
Deposits and loans	98,770	59,264	721	381
	849,992	985,347	308,467	246,803
Fixed assets	711,056	787,957	24,666	25,693
Other assets and deferred expenses	140,078	162,572	-	-
Assets attributed to discontinued operations	-	15,641	-	-
	3,737,400	3,975,417	419,341	376,991

(*) Reclassified

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

Date of approval: March 31, 2005

Balance Sheets as at December 31

	Consolidated		Company	
	2004	2003(*)	2004	2003
	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
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Current liabilities				
Credit from banks and others	1,061,530	946,418	101,986	91,820
Suppliers and service providers	216,105	240,836	613	594
Accounts payable and credit balances	254,897	335,063	28,074	24,794
Customer deposits	61,758	55,293	-	-
	1,594,290	1,577,610	130,673	117,208
Long-term liabilities				
Credit from banks and others	1,099,951	1,313,995	50,002	76,806
Debentures	133,652	196,542	-	-
Convertible debentures	160,661	270,331	12,348	15,883
Employee retirement benefit, net	17,591	16,976	317	316
Deferred tax	10,672	13,052	-	-
	1,422,527	1,810,896	62,667	93,005
Liabilities attributed to discontinued operations	-	15,316	-	-
Minority interest	483,539	392,024	-	-
Receipts, net, for share options issued by subsidiaries	11,043	12,793	-	-
Shareholders' equity	226,001	166,778	226,001	166,778
	3,737,400	3,975,417	419,341	376,991

(*) Reclassified

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

Statements of Operations for the Year Ended December 31

	Consolidated			Company		
	2004	2003	2002	2004	2003	2002
	Reported amounts (**) NIS thousands	Amounts adjusted to the effect of inflation in term of NIS of December 2003 NIS thousands	Amounts adjusted to the effect of inflation in term of NIS of December 2003 NIS thousands	Reported amounts (**) NIS thousands	Amounts adjusted to the effect of inflation in term of NIS of December 2003 NIS thousands	Amounts adjusted to the effect of inflation in term of NIS of December 2003 NIS thousands
Income						
Sales, management, consultancy services and Underwriting	1,819,379	(*)1,374,220	(*)1,325,975	9,216	17,789	17,706
Gain on marketable securities, net	44,623	110,536	-	14,870	17,566	2,476
Gain on sale of investments, loans and assets, net	158,962	(*)-	-	2,369	4,899	-
Company's equity in earnings of investees, net	37,659	10,857	-	56,395	-	-
	2,060,623	1,495,613	1,325,975	82,850	40,254	20,182
Costs and expenses						
Cost of sales and services	1,365,868	999,130	932,643	2,224	959	1,392
Selling and marketing	173,808	(*)159,371	(*)165,621	-	-	-
Administrative and general	247,520	233,956	233,646	8,131	23,982	17,235
Management fees and grants to interested parties	-	-	-	10,538	4,663	1,840
Loss on sale of investment loans and assets, net	-	(*)1,402	80,698	-	-	7,556
Loss of marketable securities defined as a current investment, net	-	-	17,196	-	-	-
Company's equity in losses of investees, net	-	-	48,219	-	32,277	84,029
Financing expenses, net	140,934	177,620	90,036	11,348	10,690	2,804
	1,928,130	1,571,479	1,568,059	32,241	72,571	114,856
Profit (loss) from operations before taxes on income	132,493	(75,866)	(242,084)	50,609	(32,317)	(94,674)
Taxes on income	17,872	16,287	16,496	-	580	3,668
Profit (loss) from operations after taxes on income	114,621	(92,153)	(258,580)	50,609	(32,897)	(98,342)
Minority interest in losses of subsidiaries, net	(64,012)	68,985	166,008	-	-	-
Loss attributed to continued operations	50,609	(23,168)	(92,572)	-	-	-
Gain (loss) attributed to discontinued operations	-	(9,729)	(5,770)	-	-	-
Net profit (loss) for the year	50,609	(32,897)	(98,342)	50,609	(32,897)	(98,342)

(*) Reclassified

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

Statements of Operations for the Year Ended December 31 (cont'd)

	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Earnings (loss) per NIS 1 par value of the share capital:						
Primary gain (loss) per share attributed to continued operations	2.76	(1.40)	(6.33)	2.76	(1.98)	(6.72)
Primary gain (loss) per share attributed to discontinued operations	-	(0.58)	(0.40)	-	-	-
Primary gain (loss) per share	<u>2.76</u>	<u>(1.98)</u>	<u>(6.72)</u>	<u>2.76</u>	<u>(1.98)</u>	<u>(6.72)</u>
Fully-diluted gain (loss) per share attributed to continued operations	2.48	(1.40)	(6.33)	2.48	(1.98)	(6.72)
Fully-diluted gain (loss) per share attributed to discontinued operations	-	(0.58)	(0.40)	-	-	-
Primary gain (loss) per share	<u>2.48</u>	<u>(1.98)</u>	<u>(6.72)</u>	<u>2.48</u>	<u>(1.98)</u>	<u>(6.72)</u>

Statement of 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	Total
	Reported amounts (*)						
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2004	24,923	162,223	4,981	(3,194)	(4,691)	(17,464)	166,778
Changes in 2004:							
Sale of Company shares	-	-	-	-	2,240	(379)	1,861
Conversion of debentures into shares of the Company	437	2,876	-	-	-	-	3,313
Changes in capital reserves in respect of investee companies	-	(249)	-	-	-	-	(249)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	3,689	-	-	-	3,689
Profit for the year	-	-	-	-	-	50,609	50,609
Balance as at December 31, 2004	25,360	164,850	8,670	(3,194)	(2,451)	32,766	226,001

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

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

Statement of 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	Total
	Amounts adjusted to the effect of inflation in terms of NIS of December 2003						
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2002	21,917	137,162	1,392	(3,127)	(1,381)	113,775	269,738
Changes in 2002:							
Purchase of Company shares by subsidiary	-	-	-	-	(3,204)	-	(3,204)
Changes in capital reserves in respect of investee companies	-	103	-	-	-	-	103
Revaluation of loans for the purchase of shares, net	-	67	-	(67)	-	-	-
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	1,962	-	-	-	1,962
Loss for the year	-	-	-	-	-	(98,342)	(98,342)
Balance as at December 31, 2002	<u>21,917</u>	<u>137,332</u>	<u>3,354</u>	<u>(3,194)</u>	<u>(4,585)</u>	<u>15,433</u>	<u>170,257</u>

Statements of Cash Flows for the Year Ended December 31

	Consolidated			Company		
	2004	2003	2002	2004	2003	2002
	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	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
Cash flows from operating activities:						
Net profit (loss) for the year	50,609	(32,897)	(98,342)	50,609	(32,897)	(98,342)
Adjustments required to reconcile cash from operating activities (Annex A)	(290,295)	(54,880)	148,165	(70,910)	40,090	110,398
Net cash inflow (outflow) attributed to continued operations	(239,686)	(87,777)	49,823	(20,301)	7,193	12,056
Net cash inflow (outflow) attributed to discontinued operations	-	14,983	30,405	-	-	-
Net cash inflow (outflow) from operating activities	(239,686)	(72,794)	80,228	(20,301)	7,193	12,056
Cash flows from investing activities:						
Acquisition of fixed assets, real estate and amounts charged to projects under construction and other assets	(83,608)	(108,278)	(84,741)	(564)	(479)	(130)
Proceeds from sale of fixed assets and other assets	178,266	24,735	17,863	195	303	76
Proceeds (purchase) of marketable securities, short-term investments and deposits, net	91,560	90,655	196,642	23,266	(24,781)	(*) 35,267
Investment in investee and other companies (including through loans and capital notes, net)	(143,685)	(145,104)	(284,086)	(34,080)	(21,803)	(108,466)
Repayment (granting) of loans and deposit, net	(42,021)	22,058	(9,570)	30,273	(104)	211
Proceeds from sale of investments in investee and other companies	367,532	218,275	191,527	26,797	21,738	3,242
Dividend from subsidiary and others	-	795	-	-	-	-
Initially fully or proportionately consolidated companies and acquisition of activities (Annex C)	(1,445)	33,724	6,601	-	-	-
Companies formerly fully or proportionately consolidated no longer consolidated and activities sold (Annex D)	665	29,689	16,646	-	-	-
Companies formerly proportionately consolidated initially consolidated (Annex E)	-	-	(9,623)	-	-	-
Net cash inflow (outflow) attributed to continued investment activities	367,264	166,549	41,259	45,887	(25,126)	(69,800)
Net cash inflow (outflow) attributed to discontinued investment activities	-	108,371	(46,655)	-	-	-
Net cash inflow (outflow) from investment activities	367,264	274,920	(5,396)	45,887	(25,126)	(69,800)

(*) Reclassified

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

Statements of Cash Flows for the Year Ended December 31 (cont'd)

	Consolidated			Company		
	2004	2003	2002	2004	2003	2002
	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	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
Cash flows from financing activities:						
Issuance of shares and option warrants	1,861	-	-	234	-	-
Purchase of Treasury shares	-	(106)	(3,204)	-	-	-
Purchase of minority shares	(959)	-	-	-	-	-
Repayment of long-term loan received from the sellers of a subsidiary	-	-	(233,605)	-	-	-
Issue of convertible bonds in Company's shares, net	-	11,640	-	-	11,640	-
Long-term loans and capital notes, net	(109,918)	45,307	-	(18,675)	48,098	30,928
Issue of debentures and convertible debentures in consolidated companies, net	-	35,884	90,077	-	-	-
Repayment of debentures and convertible debentures in consolidated companies	(85,342)	(96,228)	(62,436)	-	-	-
Dividend to minority	(23,603)	(1,341)	(4,150)	-	-	-
Issue of marketable securities of subsidiaries	55,073	(1,262)	74,013	-	-	-
Liability for financial lease	(53,850)	(54,739)	-	-	-	-
Receipt (repayment) of short-term credit, net	111,592	(10,007)	(4,849)	1,980	(43,221)	25,810
Net cash inflow (outflow) attributed to continued financing activities	(205,146)	(70,852)	(144,154)	(16,461)	16,517	56,738
Net cash inflow (outflow) attributed to discontinued financing activities	-	(117,385)	47,160	-	-	-
Net cash inflow (outflow) from financing activities	(205,146)	(188,237)	(96,994)	(16,461)	16,517	56,738
Translation differences with respect to cash balances in autonomous investee companies	(579)	(999)	714	-	-	-
Increase (decrease) in cash and cash equivalents	(78,147)	6,921	(52,358)	9,125	(1,416)	(1,006)
Balance of cash and cash equivalents at beginning of year	289,518	282,597	334,955	732	2,148	3,154
Balance of cash and cash equivalents as at end of year	211,371	289,518	282,597	9,857	732	(*) 2,148

(*) Reclassified

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

Statements of Cash Flows for the Year Ended December 31 (cont'd)

	Consolidated			Company		
	2004	2003	2002	2004	2003	2002
	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	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
Annex A -						
Adjustments required to reconcile cash from operating activities						
Income and expenses not involving cash flows:						
Loss (gain) attributed to discontinued operations	-	9,729	5,770	-	-	-
Depreciation and amortization	55,293	69,007	75,367	1,396	1,390	1,620
Company's equity in losses (earnings) of investee companies less of dividend received, net	(19,897)	6,815	61,081	(48,173)	36,069	85,618
Deferred taxes, net	2,769	(10,480)	6,389	-	147	1,322
Minority interest in losses of subsidiaries, net	64,012	(68,985)	(166,008)	-	-	-
Loss (gain) on marketable securities, net	(18,669)	(91,597)	26,411	(14,870)	(17,566)	(2,476)
Increase (decrease) in liability for employee severance benefits, net	25	(3,259)	(4,870)	1	(127)	(117)
Loss (gain) on sale and amortization of long-term investments and assets, net	(162,584)	(17,022)	96,793	(3,140)	(3,088)	9,264
Expenses (income) from financing activities	8,088	8,874	(27,507)	28	690	313
Other expenses	6,782	17,839	-	-	-	-
Changes in asset and liability items:						
Decrease (increase) in trade receivables and other receivables	(142,065)	(602)	749	(8,678)	2,408	9,666
Decrease (increase) in inventory and work in process, net	(21,927)	16,466	20,948	-	-	-
Increase (decrease) in suppliers and service providers	(62,122)	8,335	53,042	2,526	20,167	5,188
	(290,295)	(54,880)	148,165	(70,910)	40,090	110,398

(*) Reclassified

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

Statements of Cash Flows for the Year Ended December 31 (cont'd)**Annex B - Non cash transactions**

	Consolidated			Company		
	2004	2003	2002	2004	2003	2002
	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	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
Purchase of Treasury stocks and option warrants in exchange of redemption loans to employees	-	25,552	-	-	-	-
Commitment to invest in other companies	527	1,397	-	-	-	-
Investments in a subsidiary in respect of issuance of shares	-	36,575	-	-	36,575	-
Purchase of fixed assets on credit	827	4,221	1,399	-	-	-
Purchase of the minority interest in a subsidiary against the issuance of shares, options and debentures of another subsidiary	-	24,687	-	-	-	-
Amounts receivable	-	75,158	-	-	-	-
Dividend receivable from affiliated companies	-	-	746	-	-	-
Proceeds from sale of investment in investee	1,290	1,571	1,509	703	-	-

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

	Consolidated		
	2004	2003	2002(*)
	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
Working capital, net (excluding cash and cash equivalents)	2,105	38,084	(2,300)
Investments, long-term loans and fixed assets	(3,550)	(19,194)	(84,240)
Other assets and deferred expenses	-	(17,816)	(147,068)
Long-term liabilities	-	68,533	53,306
Minority interest	-	-	10,661
Investment in investee companies, net	-	1,580	153,898
Goodwill at acquisition date	-	(37,463)	(5,376)
	(1,445)	33,724	(21,119)
Liability with respect to acquisition of activities	-	-	27,720
	(1,445)	33,724	6,601

(*) Reclassified

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

Statements of Cash Flows for the Year Ended December 31 (cont'd)**Annex D - Companies previously consolidated, fully or proportionately, which are no longer consolidated and activity sold**

	Consolidated			
	2004	2003(*)	2002(*)	
	Reported amounts (**)	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
NIS thousands	NIS thousands	NIS thousands		
Working capital, net (excluding cash and cash equivalents)	(664)	42,204	3,829	
Investments and long-term loans	-	1,366	4,118	
Fixed and other assets	1,228	14,944	27,027	
Long-term liabilities	(100)	(6,101)	(7,427)	
Minority interest	220	(25,050)	-	
Balance of loans and investments	1,427	(10,622)	(12,261)	
Capital loss on the sale, net	(1,446)	12,948	64	
Expenses with respect to sale of investment, net	-	-	1,296	
	665	29,689	16,646	

Annex E - Companies formerly proportionately consolidated initially consolidated

	Consolidated			
	2004	2003	2002(*)	
	Reported amounts (**)	Amounts adjusted to the effect of inflation in terms of NIS of December 2003		
NIS thousands	NIS thousands	NIS thousands		
Working capital, net (excluding cash and cash equivalents)	-	-	(1,874)	
Fixed assets, net	-	-	(273)	
Goodwill created on acquisition	-	-	(14,664)	
Loans to proportionately consolidated company	-	-	7,188	
	-	-	(9,623)	

(*) Reclassified

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

**Shrem, Fudim Kelner and
Company Ltd.**

**Financial Statements
As at December 31, 2004
(Audited)**